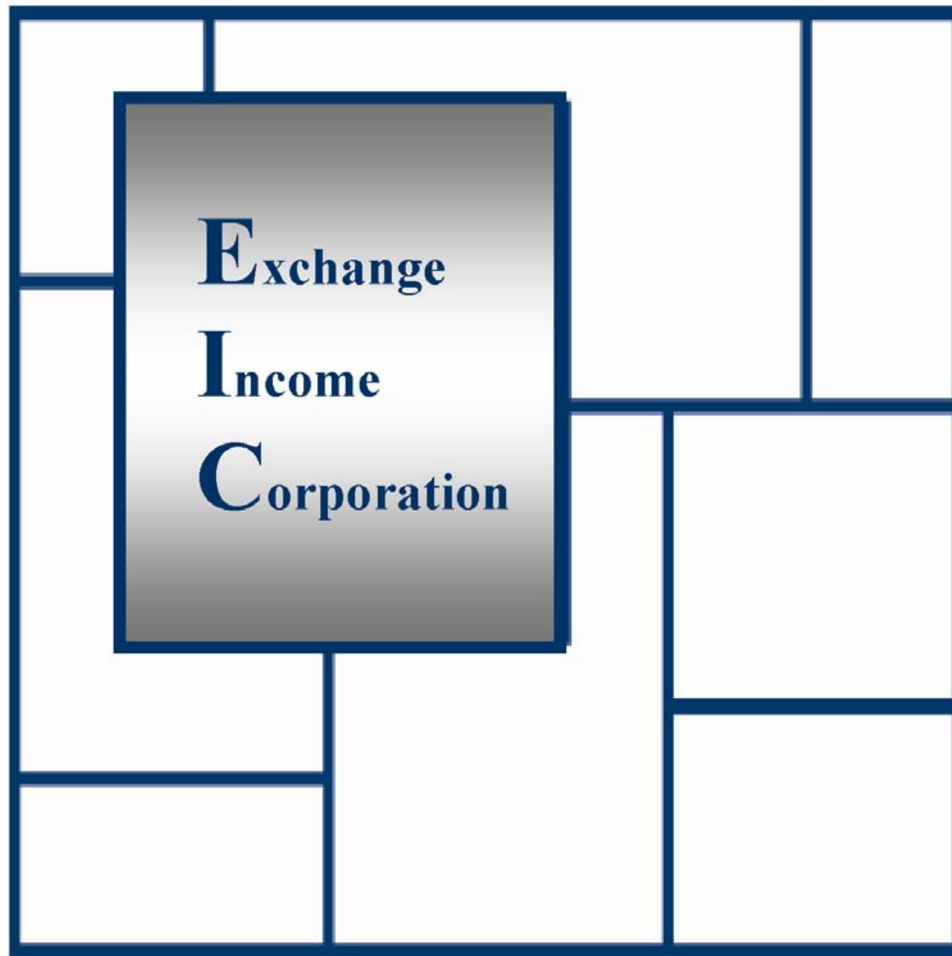


Third Quarter Report

For the three and nine months ended September 30, 2016

CEO's Message

I am pleased to report our third quarter numbers which reflect continued strong results. I am particularly pleased that we have been able to deliver strong growth in an environment where material stand-alone acquisitions, particularly but not exclusively in the USA, are, in our opinion, generally overpriced. While our acquisition team is very actively uncovering and analyzing opportunities, we have chosen to stay true to our core value of only completing transactions that are immediately accretive to our results. As a result our growth has been largely driven by investments in our existing operations both by capital investment and tuck-in acquisition, with a focus on Regional One and Provincial. While revenue growth was modest by EIC standards at 6%, EBITDA grew at a healthy 11%, and EPS grew by a larger 13%. The growth in EPS is particularly significant as this was achieved notwithstanding the growth in the number of common shares as a result of the equity offering in late 2015 and the conversion of debentures into stock in 2016. Most importantly the strength of these results has enabled us to increase our dividend for the twelfth time in just over 12 years of operation to $0.175 per month. It is also the 4th increase in the last 24 months marking an increase of 25% in our dividend in that short period of time.

Third Quarter Highlights

- Revenue grew 6% to $225 million
- EBITDA increased 11% to $60 million
- Net Earnings were $21 million up 29%
- Adjusted Net Earnings grew by 23% to $23 million
- Earnings per Share reached $0.72 an increase of 13%
- Free Cash Flow (FCF) less maintenance capital expenditures (MCE) climbed by 6% to $26 million
- On a per share basis FCF less MCE declined 8% to $0.93
- The payout ratio was strong at 54%
- Dividends per share increased by 8% to $0.5025

On a segmented basis, we saw strong growth in the Aerospace & Aviation segment offset by declines in our Manufacturing segment. EBITDA generated by Aerospace & Aviation was up by 16% to $57.6 million. The strong performance was driven by growth at Regional One together with improved profitability at the Legacy Airlines. Bucking this trend was our helicopter business which experienced a weaker than normal summer as a result of wet conditions in Manitoba and the resultant lack of forest fire fighting work. Our manufacturing business EBITDA declined by $1.8 million or 22%. This decline was generally the result of the very weak economy in Alberta and lack of demand for our pressure system solutions.

During the quarter we completed the acquisition of CarteNav Solutions Inc. for a purchase price of up to $17 million. CarteNav is a Halifax based software developer which provides intelligence, surveillance, reconnaissance and situational awareness solutions to defense, security and commercial clients. This is a small acquisition for EIC but we are very excited about what it accomplishes for our aerospace business. The transaction is accretive on a stand-alone basis, but the driving force behind the transaction was CarteNav's ability to further strengthen the competitive position of Provincial Aerospace. CarteNav will allow Provincial to develop more timely, cost effective solutions for our current and prospective maritime surveillance customers. This tangible competitive synergy is a significant strategic and financial opportunity for Provincial.

Subsequent to the quarter end we completed the acquisition of Team J.A.S. for approximately US $10 million. This is a small acquisition for EIC but holds significant strategic value to our Regional One operations. Team J.A.S. is a parts company specializing

in the Twin Otter Aircraft which has recently gone back into production. Team J.A.S will bring expertise in a new aircraft type to Regional One thereby expanding our portfolio of propeller aircraft expertise. An additional benefit of the transaction is internalizing the parts procurement for Provincial's fleet of Twin Otters.

We continue to invest in Regional One's portfolio of aircraft. During the quarter, Regional One acquired net nine aircraft including the sale of one aircraft we completed during the quarter. These aircraft have been added to the company's lease portfolio.

For the last 12 and a half years our business model has been consistent, to provide our shareholders with a consistently growing dividend through disciplined accretive acquisition and organic growth. We are excited that we enter the final quarter of 2016 with a market capitalization of over one billion dollars and in the best position in our history. Our balance sheet is strong, and we are growing revenues and profits. Most importantly this operating performance has driven four dividend increases totaling an increase of 25% in the monthly payment in the last two years, while maintaining a payout ratio at the low end of our target range. We are pleased to announce our second dividend increase in fiscal 2016 to $2.10 per annum. I want to thank all of our shareholders for their ongoing support and look forward to updating you on the fourth quarter of 2016.

Mike Pyle
Chief Executive Officer

November 9, 2016

FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements. All statements other than statements of historical fact contained in this Management's Discussion and Analysis ("MD&A") are forward-looking statements, including, without limitation, statements regarding the future financial position, business strategy, proposed acquisitions, budgets, litigation, projected costs and plans and objectives of or involving Exchange Income Corporation or the businesses in which it has invested. Persons reading this MD&A can identify many of these statements by looking for words such as "believe", "expects", "will", "may", "intends", "projects", "anticipates", "plans", "estimates", "continues" and similar words or the negative thereof. Although management believes that the expectations represented in such forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct.

By their nature, forward-looking statements require assumptions and are subject to inherent risks and uncertainties including those discussed in this report. There is significant risk that predictions and other forward-looking statements will not prove to be accurate. Readers of this report are cautioned to not place undue reliance on forward-looking statements made or incorporated by reference herein because a number of factors could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed in the forward-looking statements.

The future outcomes that relate to forward-looking statements may be influenced by many factors, including but not limited to those risk factors set out in this report described in Section 11 – *Risk Factors* of the MD&A. We caution that the list of risk factors set out herein is not exhaustive and that when relying on forward-looking statements to make decisions with respect to Exchange Income Corporation, investors and others should carefully consider these factors, as well as other uncertainties and potential events, and the inherent uncertainty of forward-looking statements.

The forward-looking statements contained herein are expressly qualified in their entirety by this cautionary statement. The forward-looking statements included in this report are made as of the date of this report or such other date specified in such statement.

INTRODUCTION

This MD&A supplements the unaudited interim condensed consolidated financial statements and related notes for the three and nine months ended September 30, 2016 ("Consolidated Financial Statements") of Exchange Income Corporation ("EIC" or "the Corporation"). All amounts are stated in thousands of Canadian dollars, except per share information and share data, unless otherwise stated.

This MD&A should be read in conjunction with the unaudited interim condensed consolidated financial statements of the Corporation for the three and nine months ended September 30, 2016, its annual financial statements for the year ended December 31, 2015 and its annual MD&A for the year ended December 31, 2015. These interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of financial statements.

1. FINANCIAL HIGHLIGHTS

The financial highlights for the Corporation for the periods indicated are as follows:

FINANCIAL PERFORMANCE	2016	per share basic	per share fully diluted	2015	per share basic	per share fully diluted
For the three months ended September 30						
Revenue	$ 224,620			$ 212,750		
EBITDA	60,012			54,052		
Net earnings	20,581	$ 0.72	$ 0.67	15,983	$ 0.64	$ 0.60
Adjusted net earnings	23,127	0.81	0.74	18,811	0.76	0.69
Free Cash Flow	45,873	1.60	1.37	42,195	1.70	1.43
Free Cash Flow less maintenance capital expenditures	26,484	0.93	0.84	24,966	1.01	0.89
Free Cash Flow less maintenance capital expenditures payout ratio		54%	60%		46%	52%
Dividends declared	14,366	0.5025		11,873	0.465	
For the nine months ended September 30						
Revenue	$ 669,369			$ 582,899		
EBITDA	161,271			133,185		
Net earnings	47,668	$ 1.70	$ 1.64	30,311	$ 1.28	$ 1.25
Adjusted net earnings	55,523	1.99	1.87	39,626	1.67	1.63
Free Cash Flow	123,446	4.41	3.83	103,747	4.38	3.63
Free Cash Flow less maintenance capital expenditures	68,761	2.46	2.26	53,945	2.28	2.05
Free Cash Flow less maintenance capital expenditures payout ratio		60%	65%		59%	65%
Dividends declared	41,463	1.4775		31,975	1.335	
FINANCIAL POSITION	**September 30, 2016**			December 31, 2015		
Working capital	$ 150,783			$ 135,310		
Capital assets	644,061			542,629		
Total assets	1,337,875			1,229,056		
Senior debt and finance leases	386,782			304,886		
Equity	473,000			446,618		
SHARE INFORMATION	**September 30, 2016**			December 31, 2015		
Common shares outstanding	28,603,795			27,633,217		
	September 30, 2016			September 30, 2015		
Weighted average shares outstanding during the period - basic	27,967,268			23,671,509		

2. OVERVIEW

EXCHANGE INCOME CORPORATION

The Corporation is a diversified, acquisition-oriented corporation focused on opportunities in aerospace & aviation services and equipment, and manufacturing. The business plan of the Corporation is to invest in profitable, well-established companies with strong cash flows operating in niche markets. The objectives of the Corporation are:

(i) to provide shareholders with stable and growing dividends;

(ii) to maximize share value through on-going active monitoring of its operating subsidiaries; and

(iii) to continue to acquire additional companies, businesses or interests therein in order to expand and diversify the Corporation's investments.

Segment Summary

The Corporation's operating segments are strategic business units that offer different products and services. The Corporation has two operating segments: Aerospace & Aviation and Manufacturing. During the 2016 period, the Corporation changed the name of one of its operating segments. The segment previously referred to as the Aviation segment was renamed the Aerospace & Aviation segment to better reflect the product mix offered by the subsidiaries within the segment.

(a) **Aerospace & Aviation –** includes a variety of operations within the aerospace and aviation industries. It includes providing scheduled airline and charter service and emergency medical services to communities located in Manitoba, Ontario and Nunavut. These services are provided by: **Calm Air**, **Perimeter**, **Keewatin**, **Bearskin**, **Custom Helicopters**, and other aviation supporting businesses ("the **Legacy Airlines**"). **Regional One** is focused on supplying regional airline operators around the world with various after-market aircraft, engines, and component parts. **Provincial** provides scheduled airline and charter service in Newfoundland and Labrador, Quebec, New Brunswick and Nova Scotia and through its aerospace business Provincial designs, modifies, maintains and operates custom sensor equipped aircraft. Provincial has maritime surveillance and support operations in Canada, the Caribbean and the Middle East. Together all of these operations make up the Aerospace & Aviation segment. To assist in further explaining the results of the segment, the Corporation may refer to the Legacy Airlines, Regional One and Provincial.

(b) **Manufacturing –** provides a variety of manufactured goods and related services in a number of industries and geographic markets throughout North America. The operations of **WesTower** are focused on the engineering, design, manufacturing and construction of communication towers. **Stainless** manufactures specialized stainless steel tanks, vessels and processing equipment. The **Alberta Operations** manufactures specialized heavy duty pressure washing and steam systems, commercial water recycling systems and custom tanks for the transportation of various products, primarily oil, gasoline and water. **Overlanders** manufactures precision sheet metal and tubular products. **Ben Machine** is a manufacturer of precision parts and components primarily used in the aerospace and defense sector.

Management of the Corporation continuously monitors the operating subsidiaries. The operating subsidiaries of the Corporation, however, operate autonomously and maintain their individual business identities. The Corporation will undertake future acquisitions as deemed beneficial to the Corporation.

SIGNIFICANT EVENTS

Convertible Debenture Issuance – Unsecured 2016 Series

On June 7, 2016, the Corporation closed a bought deal offering of convertible unsecured subordinated debentures. At the closing of the offering, the Corporation issued $69 million principal amount of debentures. This amount included the exercise of the $9 million over-allotment granted to the underwriters of the offering. The debentures bear interest at 5.25% per annum, payable semi-annually. The debentures are convertible at the holder's option into common shares of the Corporation at a conversion price of $44.75 per share. The maturity date of the debentures is June 30, 2023.

Convertible Debenture Early Redemption – Series J

On June 30, 2016, the Corporation exercised its right to call the 6.25% Series J convertible debentures. Before the redemption date, $27.1 million of convertible debentures were converted into 886,264 common shares at a price of $30.60 per share of the Corporation. The remaining convertible debentures in the principal amount of $30.4 million, plus accrued interest, were repaid on June 30, 2016 using funds from the Corporation's credit facility.

Acquisition of CarteNav

On August 8, 2016, the Corporation acquired all of the issued and outstanding shares of CarteNav Solutions Inc. (CarteNav). CarteNav, headquartered in Halifax, Nova Scotia, is a leading software developer providing intelligence, surveillance, reconnaissance ("ISR") and situational awareness software solutions for the maritime, land and air environments to defense, security and commercial clients. Its flagship product, AIMS-ISR® has become the software of choice for both government and non-government customers in more than 30 countries across six continents. CarteNav is strategically complementary to Provincial's aerospace business and, as of the close of the transaction, is a wholly-owned subsidiary of Provincial.

The total purchase price is up to $17 million, which includes the purchase price on closing and payments relating to an earn out over the next five years. The final purchase price allocation, which is expected to be completed in the fourth quarter of 2016, will be based on final analysis of the fair values of assets and liabilities acquired, including intangible assets. The Corporation does not expect that differences between preliminary and final purchase price allocations will have a material impact on its results of operations or financial position.

Acquisition of Team J.A.S.

On November 4, 2016, the Corporation signed a purchase agreement to acquire the shares of Team J.A.S., Inc. ("Team J.A.S."), a US corporation based in Jacksonville, Florida. Team J.A.S. is a leading provider of parts, services and MRO capabilities to Twin Otter operators throughout the world. Team J.A.S. is strategically complementary to Regional One's business offering a new product platform in the Twin Otter and new capabilities as a Federal Aviation Administration ("FAA") Part 145 Repair Station and Parts Manufacturer Approval ("PMA").

The total purchase price is approximately US$10 million, and is subject to customary post-closing adjustments. The purchase price was paid in cash (85%) and shares of EIC (15%). Team J.A.S.'s financial results will be included in the Corporation's consolidated financial statements commencing in the fourth quarter of 2016.

3. KEY PERFORMANCE INDICATORS

The following section will quantify and analyze the key performance indicators of the Corporation. The Corporation continually monitors and evaluates its metrics and updates these metrics as required to ensure they provide information considered most useful in any decision-making based on the Corporation's performance.

The dividends declared by the Corporation to its shareholders are dependent on its cash flow from operating activities with consideration for changes in working capital requirements, investing activities and financing activities of the Corporation. The EBITDA, Free Cash Flow, and Free Cash Flow less maintenance capital expenditures generated from operations are important performance measures that are used by management to evaluate the performance of the Corporation.

EBITDA

The following reconciles net earnings before income taxes to EBITDA. Further discussion and analysis of EBITDA for the periods can be found in Section 4 – *Analysis of Operations*:

EBITDA	Three Months Ended		Nine Months Ended	
periods ending September 30	**2016**	2015	**2016**	2015
Earnings before income taxes	$ **28,730**	$ 22,705	$ **69,086**	$ 44,003
Depreciation and amortization	**23,650**	22,753	**68,824**	61,883
Finance costs - interest	**7,132**	7,426	**22,489**	22,943
Acquisition costs	**500**	1,168	**872**	4,356
	$ **60,012**	$ 54,052	$ **161,271**	$ 133,185

Three Month EBITDA

The EBITDA generated by the Corporation during the current quarter was $60.0 million, an increase of $6.0 million or 11% over the comparative period. The increase in EBITDA is the result of improved performance in the Aerospace & Aviation segment ($8.0 million increase), offset by a decrease in EBITDA generated by the Manufacturing segment ($1.8 million decrease) and slightly higher head office costs ($0.2 million increase). The increase in EBITDA for the Aerospace & Aviation segment is mainly attributable to Regional One and the Legacy Airlines. Regional One generated significant revenue and EBITDA growth in the third quarter, largely driven by the previous and ongoing investments made in additional aircraft and the resultant growth in Regional One's portfolio of aircraft and components for lease. The Legacy Airlines generated sustained EBITDA growth over the prior period due to margin enhancement

initiatives and experienced revenue growth in most areas. This growth was somewhat mitigated by an extremely wet summer that reduced demand for evacuation and fire suppression services. The decrease in EBITDA in the Manufacturing segment was driven by declines in customer demand at the Alberta Operations and Stainless.

Nine Month EBITDA

The EBITDA generated by the Corporation during the first nine months of 2016 was $161.3 million, an increase of $28.1 million or 21% over the comparative period. The increase in EBITDA is a result of improved performance in the Aerospace & Aviation segment ($27.6 million increase) and an increase in EBITDA generated by the Manufacturing segment ($1.6 million increase), offset by higher head office costs ($1.1 million increase). EBITDA growth was driven by improvements in each of the segment components. The Legacy Airlines continued to grow EBITDA over the prior period due to investment in capital assets, organic growth and margin enhancement initiatives. These gains were partially offset by the lack of fire suppression work. Provincial's strong EBITDA growth during the nine month period was primarily driven by growth in the Middle East operations resulting from the new multi-year contract announced in November 2015. Consistent with the three month discussion, Regional One generated significant EBITDA growth in the nine month period, driven by strong lease revenue and increased aircraft and part sales. The growth in EBITDA in the Manufacturing segment is attributable to the acquisition of Ben Machine in the third quarter of 2015, with results in only a portion of the comparative period. The growth in EBITDA attributable to Ben Machine was partially offset by weakness at the Alberta Operations.

FREE CASH FLOW

FREE CASH FLOW	Three Months Ended		Nine Months Ended	
periods ending September 30	**2016**	2015	**2016**	2015
Cash flows from operations	**$ 35,345**	$ 43,894	**$ 97,392**	$ 67,974
Change in non-cash working capital items	**10,028**	(2,867)	**25,182**	31,417
Acquisition costs	**500**	1,168	**872**	4,356
	$ 45,873	$ 42,195	**$ 123,446**	$ 103,747
per share - Basic	**$ 1.60**	$ 1.70	**$ 4.41**	$ 4.38
per share - Fully Diluted	**$ 1.37**	$ 1.43	**$ 3.83**	$ 3.63

Three Month Free Cash Flow

The Free Cash Flow generated by the Corporation for the third quarter of 2016 was $45.9 million, an increase of $3.7 million or 9% over the comparative period. The increase in Free Cash Flow is a result of a number of factors, but is primarily due to the 11% increase in EBITDA generated during the period.

The Corporation's cash taxes increased by $2.1 million in the current quarter, which reduced Free Cash Flow. The higher cash taxes are mainly as a result of the increased earnings generated in the current quarter. Further detail on changes in cash taxes can be found in the tax discussion below in *Section 4 – Analysis of Operations*.

On a basic per share basis, the increase in absolute Free Cash Flow was offset by a 15% increase in the average Shares outstanding in the current quarter. The combined impact resulted in Free Cash Flow of $1.60 per share for the current quarter, a decrease of $0.10 per share or 6% from the comparative period (fully diluted $1.37, a decrease of $0.06 or 4%). Details around the change in Shares outstanding can be found in Section 6 – *Liquidity and Capital Resources*.

Nine Month Free Cash Flow

The Free Cash Flow generated by the Corporation for the nine months ended September 30, 2016 was $123.4 million, an increase of $19.7 million or 19% over the comparative period. Consistent with the second quarter discussion, the change in Free Cash Flow is the result of a number of factors but primarily as a result of the 21% increase in EBITDA generated in the nine months ended September 30, 2016.

In addition to the increase in EBITDA, a decrease of $1.2 million of cash interest on the Corporation's convertible debentures further improved Free Cash Flow. The cash interest on the Corporation's convertible debentures was lower in the first nine months of 2016 as a result of the early redemption of the Series I convertible debentures in the first quarter 2015, the early redemption of the Series H convertible debentures in the third quarter 2015, and the early redemption of the Series J convertible debentures in the second quarter of 2016. The decrease in cash interest on convertible debentures was partially offset by an increase of $0.7 million in cash interest on the Corporation's credit facility. As a result of these factors, the Corporation's cash interest decreased overall by $0.5 million.

The Corporation's cash taxes increased by $9.6 million in the first nine months of 2016, which reduced Free Cash Flow. The higher cash taxes are mainly a result of the increased earnings generated by the Corporation. Further detail on changes in cash taxes can be found in the tax discussion below in *Section 4 – Analysis of Operations*.

On a basic per share basis, the increase in absolute Free Cash Flow contributed to the increase in per share amounts despite an increase of 18% in the average Shares outstanding in the first nine months of 2016. The combined impact resulted in Free Cash Flow of $4.41 per share for the nine months ended September 30, 2016, an increase of $0.03 per share or 1% over the comparative period (fully diluted $3.83, an increase of $0.20 or 6%). Details around the increase in Shares outstanding can be found in Section 6 – *Liquidity and Capital Resources*.

FREE CASH FLOW LESS MAINTENANCE CAPITAL EXPENDITURES

FREE CASH FLOW LESS MAINTENANCE CAPITAL EXPENDITURES	Three Months Ended		Nine Months Ended	
periods ending September 30	2016	2015	2016	2015
Free Cash Flow	$ 45,873	$ 42,195	$ 123,446	$ 103,747
Maintenance Capital Expenditures	19,389	17,229	54,685	49,802
	$ 26,484	$ 24,966	$ 68,761	$ 53,945
per share - Basic	$ 0.93	$ 1.01	$ 2.46	$ 2.28
per share - Fully Diluted	$ 0.84	$ 0.89	$ 2.26	$ 2.05

Three Month Free Cash Flow Less Maintenance Capital Expenditures

The Free Cash Flow less maintenance capital expenditures generated by the Corporation for the current quarter was $26.5 million, an increase of $1.5 million or 6% over the comparative period. The increase is due to the increase in Free Cash Flow as described above, partially offset by the $2.2 million or 13% increase in maintenance capital expenditures, which is described in detail in the Capital Expenditures section.

Maintenance capital expenditures fluctuate from period to period. As a result of the variability in timing of maintenance capital expenditures, Free Cash Flow is a more stable metric than Free Cash Flow less maintenance capital expenditures as a measure of ongoing operating performance. Maintenance capital expenditures are variable because overhaul maintenance for aircraft engines and airframe heavy checks are treated as capital expenditures when the event takes place. Free Cash Flow less maintenance capital expenditures is still an important operating metric; however, it will be subject to quarterly and annual variability as a result of the uneven timing of maintenance capital expenditures and therefore needs to be evaluated over longer operating periods.

The increase in absolute Free Cash Flow less maintenance capital expenditures was offset by a 15% increase in the average Shares outstanding in the current quarter. The combined impact resulted in Free Cash Flow less maintenance capital expenditures of $0.93 per share for the current quarter, a decrease of $0.08 per share or 8% from the comparative period (fully diluted $0.84, decrease of $0.05 or 6%). Details around the change in Shares outstanding can be found in Section 6 – *Liquidity and Capital Resources*.

Nine Month Free Cash Flow Less Maintenance Capital Expenditures

The Free Cash Flow less maintenance capital expenditures generated by the Corporation for the current period was $68.8 million, an increase of $14.8 million or 27% over the comparative period. The increase is due to the increase in Free Cash Flow as described above, partially offset by the $4.9 million or 10% increase in maintenance capital expenditures, which is described in detail in the Capital Expenditures section.

The increase in absolute Free Cash Flow less maintenance capital expenditures contributed to the increase in basic per share amounts despite an increase of 18% in the average Shares outstanding in the first nine months of 2016. The combined impact resulted in Free Cash Flow less maintenance capital expenditures of $2.46 per share for the nine months ended September 30, 2016, an increase of $0.18 per share or 8% over the comparative period (fully diluted $2.26, increase of $0.21 or 10%). Details around the change in Shares outstanding can be found in Section 6 – *Liquidity and Capital Resources*.

CAPITAL EXPENDITURES

CAPITAL EXPENDITURES	Three Months Ended				Nine Months Ended			
periods ending September 30		2016		2015		2016		2015
Cash maintenance capital expenditures	$	19,109	$	17,018	$	54,037	$	49,120
add: finance lease principal payments		280		211		648		682
Maintenance capital expenditures		19,389		17,229		54,685		49,802
Growth capital expenditures		53,268		18,718		114,623		61,217
Capital expenditures	$	72,657	$	35,947	$	169,308	$	111,019
Maintenance capital expenditures per share – Basic	$	0.68	$	0.69	$	1.96	$	2.10
Growth capital expenditures per share – Basic		1.86		0.75		4.10		2.59
Total capital expenditures per share – Basic	$	2.54	$	1.44	$	6.06	$	4.69

Maintenance Capital Expenditures

The Corporation's maintenance capital expenditures in the third quarter totaled $19.4 million, an increase of $2.2 million or 13% from the comparative period. The majority of the expenditures occurred in the Aerospace & Aviation segment, as it invested $18.1 million, while the Manufacturing segment invested $1.3 million.

The $18.1 million of maintenance capital expenditures invested by the Aerospace & Aviation segment was $1.6 million or 10% higher than the comparative period. The increase is entirely attributable to the Legacy Airlines and Regional One.

The $1.3 million of maintenance capital expenditures invested by the Manufacturing segment was $0.6 million or 103% higher than the comparative period. The increase is primarily attributable to the timing of investments in replacement production equipment.

Maintenance capital expenditures for the nine month period ended September 30, 2016 totaled $54.7 million, an increase of $4.9 million or 10% over the comparative period. The Aerospace & Aviation segment invested $51.2 million, the Manufacturing segment invested $3.0 million, and head office invested $0.5 million. The majority of the increase relates to Regional One, Provincial and the Manufacturing segment, offset by a decrease in maintenance capital expenditures in the Legacy Airlines.

Growth Capital Expenditures

The Corporation's growth capital expenditures in the third quarter totaled $53.3 million, an increase of $34.6 million or 185% over the comparative period. The growth capital expenditures were made entirely by the Aerospace & Aviation segment. The most significant investments were the purchases of a total of 10 aircraft by Regional One, further growing its lease portfolio. Netted against Regional One's net capital expenditures is the sale of one operating aircraft during the quarter. Provincial's work on developing a capability demonstrator aircraft also contributed to increase growth capital expenditures in the quarter.

Growth capital expenditures for the nine month period ended September 30, 2016 totaled $114.6 million, an increase of $53.4 million or 87% over the comparative period. The growth capital expenditures were made entirely by the Aerospace & Aviation segment. The most significant investments were the purchases of a total of 17 aircraft by Regional One, adding to its lease portfolio and expanding to include a new series of CRJ aircraft, the CRJ900. Netted against Regional One's net capital expenditures are the sales of six operating aircraft during the nine months ended September 30, 2016. In addition, the Legacy Airlines purchased a Eurocopter EC135, a twin engine helicopter. The EC135 introduces significant additional capabilities to the rotary wing operation, including IFR (instrument flight rules) and night authorization.

Operating aircraft purchased by Regional One are classified as capital expenditures. When an operating aircraft is sold, the sale is netted against growth capital expenditures in the period of the sale. Purchases of inventory, including operating aircraft that are intended to be parted out and sold, are reflected in working capital and have no impact on growth or maintenance capital expenditures. If a decision is made to take an operating aircraft out of Regional One's lease portfolio to be parted out, the asset is transferred to inventory from capital assets and a negative growth capital expenditure is recorded.

Our capital expenditures are split between growth and maintenance. In all subsidiary companies other than Regional One, this is done based on the nature of the asset being purchased. If it creates a new source of cash flow, it is a growth capital expenditure, and if it serves to maintain existing cash flow streams, it is a maintenance capital expenditure. The split within Regional One is done on a different basis because of its significant leasing revenue. Aircraft under lease are being used up and if re-investment is not made, either through overhaul or the purchase of replacement aircraft, cash flow will decline over time. As such, all capital expenditures up to the depreciation expense are classified as maintenance as they sustain the ability of the lease portfolio to generate cash flow. Capital investments in excess of depreciation will create new cash flows and are classified as growth capital expenditures.

Since its acquisition by EIC, Regional One has consistently delivered returns that exceed our target return on capital. EIC intends to rigorously identify and assess opportunities to grow its asset base and thereby its ability to generate profits.

DIVIDENDS & PAYOUT RATIO

The amounts and record dates of the dividends declared during the nine months ended September 30, 2016 and the comparative period in 2015 were as follows:

Month	Record date	Per Share	2016 Dividends Amount	Record date	Per Share	2015 Dividends Amount
January	January 29, 2016	$ 0.16	$ 4,424	January 30, 2015	$ 0.145	$ 3,342
February	February 29, 2016	0.16	4,416	February 27, 2015	0.145	3,347
March	March 31, 2016	0.16	4,418	March 31, 2015	0.145	3,349
April	April 29, 2016	0.16	4,423	April 30, 2015	0.145	3,352
May	May 31, 2016	0.1675	4,633	May 29, 2015	0.145	3,354
June	June 30, 2016	0.1675	4,783	June 30, 2015	0.145	3,358
July	July 29, 2016	0.1675	4,786	July 31, 2015	0.145	3,550
August	August 31, 2016	0.1675	4,789	August 31, 2015	0.16	3,919
September	September 30, 2016	0.1675	4,791	September 30, 2015	0.16	4,404
Total		$ 1.4775	$ 41,463		$ 1.335	$ 31,975

Dividends declared for both the three and nine month periods ended September 30, 2016 have increased over the comparative period. The increases are due to the increase in the dividend rate per month in the current period and the higher number of Shares outstanding in 2016. The Corporation increased the monthly dividend rate per share by $0.015 in the third quarter of 2015 (10% increase) and $0.0075 in the second quarter of 2016 (5% increase). This resulted in the dividends declared for the first nine months of 2016 totaling $1.4775 per share compared to $1.335 per share in the comparative period, an increase of 11%. Dividends declared during the first nine months of 2016 totaled $41.5 million. Impacting the dividends declared in 2016 is the Corporation's issuance of shares through its equity offering that closed late in the third quarter of 2015, the Shares issued as a result of the Series J convertible debenture conversions and the Shares repurchased under the Corporation's normal course issuers bid in the first quarter of 2016 and subsequently cancelled.

The Corporation compares the dividends declared in the period to the amount of cash flows generated by the Corporation in that period to determine a payout ratio. The dividends declared by the Corporation are presented as financing activities within the Corporation's statement of cash flows whereas Free Cash Flow and Free Cash Flow less maintenance capital expenditures, as defined, are driven from the Corporation's operating activities and exclude dividends. The payout ratio provides an indication of the Corporation's ability to generate sufficient funds from its operations to pay its dividends to shareholders.

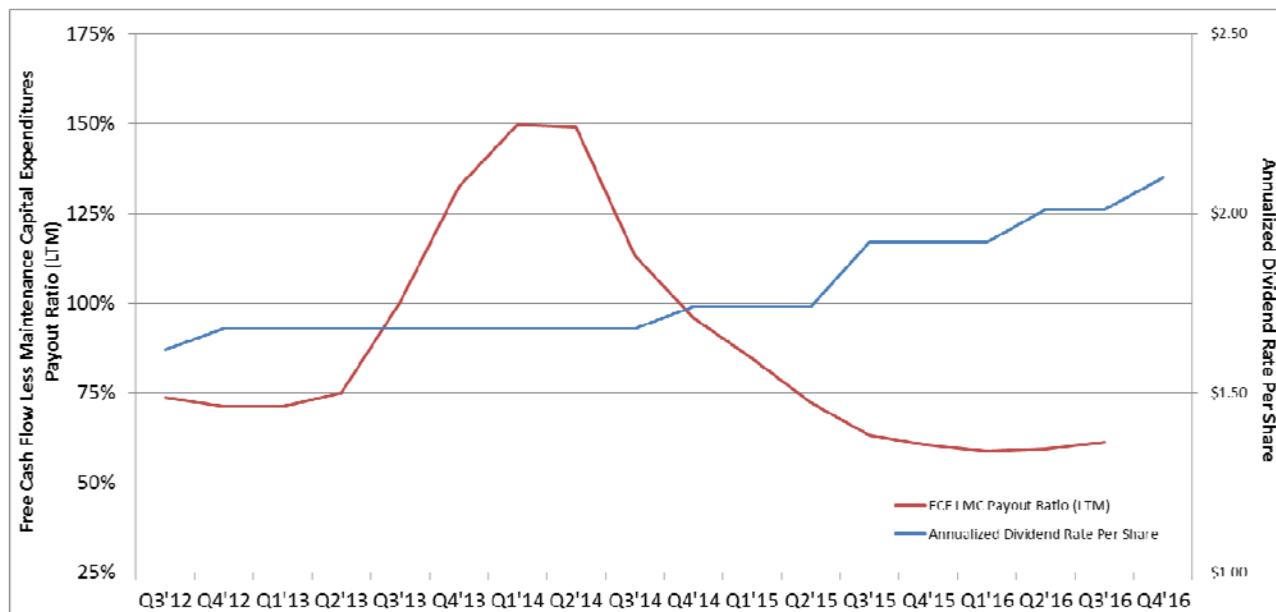
The following compares the Corporation's dividends declared on a per share basis as a percentage of the Corporation's Free Cash Flow and Free Cash Flow less maintenance capital expenditures on a per share basis during the current period and the comparative period.

Payout Ratios	2016	Per share basic	Per share fully diluted	2015	Per share basic	Per share fully diluted
For the three months ended September 30						
Free Cash Flow		*31%*	*37%*		*27%*	*33%*
Free Cash Flow less maintenance capital expenditures		*54%*	*60%*		*46%*	*52%*
For the nine months ended September 30						
Free Cash Flow		*34%*	*39%*		*30%*	*37%*
Free Cash Flow less maintenance capital expenditures		*60%*	*65%*		*59%*	*65%*

The Corporation's Free Cash Flow and Free Cash Flow less maintenance capital expenditures payout ratios increased to 31% and 54% for the third quarter of 2016, compared to 27% and 46% in the prior period. These increases were caused by the 8% increase in the monthly dividend rate declared by the Corporation and the 15% increase in Shares outstanding.

The following graph shows the Corporation's historical Free Cash Flow less maintenance capital expenditures trailing 12 months payout ratio on the left axis. On the right axis, the annualized dividend rate per share is shown. As can be seen in the graph, the

current trailing twelve months payout ratio of 61% is below historical levels despite an increase in the annualized dividend from $1.68 per share in the third quarter of 2014 to $2.01 per share before the announcement of the dividend increase in November 2016, an increase of 20% over that period. The graph below shows the annualized dividend rate of $2.10 per share effective November 2016 without a payout ratio comparison for the same period.



The Corporation's Board of Directors regularly examines the dividends paid to shareholders. The Corporation has experienced an enhanced level of performance which is not considered to be transitory but indicative of an established base level of performance to be further augmented with growing profitability. This established base level is expected to continue into the foreseeable future and will be further supported through the enhanced access to capital the Corporation secured in 2015 and 2016. These additional capital resources allow the Corporation to move decisively when additional opportunities to grow its Free Cash Flow are identified. Subsequent to September 30, 2016, the Corporation announced a 4% dividend increase, or $0.0075 per Share per month. This increase will reflect a dividend of $2.10 per Share on an annualized basis, and is effective for the November dividend paid to shareholders in mid-December. The latest increase is the Corporation's fourth dividend increase in the last 24 months, increasing the monthly dividend rate by 25% over that period, and the 12th dividend increase since 2004.

4. ANALYSIS OF OPERATIONS

Three Month Results

The following section analyzes the financial results of the Corporation's operations for the three months ended September 30, 2016 and the comparative 2015 period.

	Three Months Ended September 30, 2016			
	Aerospace & Aviation	Manufacturing	Head Office[(2)]	Consolidated
Revenue	$ 178,764	$ 45,856	$ -	$ 224,620
Expenses[(1)]	121,206	39,436	3,966	164,608
EBITDA	57,558	6,420	(3,966)	60,012
Depreciation and amortization				23,650
Finance costs - interest				7,132
Acquisition costs				500
Earnings before tax				28,730
Current income tax expense				8,245
Deferred income tax recovery				(96)
Net earnings				$ 20,581

	Three Months Ended September 30, 2015			
	Aerospace & Aviation	Manufacturing	Head Office[(2)]	Consolidated
Revenue	$ 157,308	$ 55,442	$ -	$ 212,750
Expenses[(1)]	107,787	47,231	3,680	158,698
EBITDA	49,521	8,211	(3,680)	54,052
Depreciation and amortization				22,753
Finance costs - interest				7,426
Acquisition costs				1,168
Earnings before tax				22,705
Current income tax expense				6,101
Deferred income tax expense				621
Net earnings				$ 15,983

Note 1): Expenses include aerospace & aviation expenses (excluding depreciation and amortization), manufacturing expenses (excluding depreciation and amortization), and general and administrative expenses.

Note 2): Head-office is not a separate reportable segment. It includes expenses incurred at the head-office of the Corporation and is presented for reconciliation purposes.

AEROSPACE & AVIATION SEGMENT

Aerospace & Aviation Segment Three Months Ended September 30,	**2016**	2015	Variance	Variance %
Revenue	$ **178,764**	$ 157,308	$ 21,456	14%
Expenses	**121,206**	107,787	13,419	12%
EBITDA	$ **57,558**	$ 49,521	$ 8,037	16%

The revenue of the Aerospace & Aviation segment for the current quarter was $178.8 million, an increase of $21.5 million or 14% over the comparative period. The overall increase in revenue is attributable to growth across the segment.

The EBITDA generated by the Aerospace & Aviation segment for the current quarter was $57.6 million, an increase of $8.0 million or 16% over the comparative period. EBITDA margins were 32.2% in the current period versus 31.5% in the comparative period. The majority of the growth in EBITDA was driven by growth in Regional One and the Legacy Airlines.

Regional One generated significant revenue and EBITDA growth in the third quarter, driven by strong lease revenue and increased asset and part sales. This growth was driven by the previous and ongoing investments made in aircraft. Regional One continued to monetize these investments, including the sale of aircraft that enhanced the already strong third quarter performance. The sale of operating aircraft will not occur in every quarter, thus highlighting the uneven nature of quarterly results.

Provincial's strong revenue growth during the current quarter was primarily driven by growth in the Middle East operations resulting from the new multi-year contract announced in November 2015. This strong aerospace revenue, however, was partially offset by the impact of very weak macroeconomic conditions in Newfoundland and increased airline competition in the region. Despite these external challenges, Provincial largely avoided an erosion of profitability through diligent management and its diversified revenue base.

The Legacy Airlines generated strong revenue and EBITDA growth due to investment in capital assets, the successful integration of those assets and ongoing management initiatives to reduce costs and improve efficiency. In addition, most entities within the segment experienced strong organic growth compared to the prior period. The strong revenue and EBITDA growth was partially offset by abnormally wet weather conditions in the region that reduced demand for rotary wing fire suppression work.

Both Provincial's airline operations and the Legacy Airlines' EBITDA benefited from fuel cost savings throughout the quarter; however, the impact of these savings diminished in the current quarter relative to savings realized during the first half of 2016. The Aerospace & Aviation segment performance was also enhanced by an increased volume of internalized MRO work as well as procurement and administrative efficiencies between the Legacy Airlines, Provincial and Regional One.

MANUFACTURING SEGMENT

Manufacturing Segment	Three Months Ended September 30,	**2016**	2015	Variance	Variance %
Revenue		$ **45,856**	$ 55,442	$ (9,586)	-17%
Expenses		**39,436**	47,231	(7,795)	-17%
EBITDA		$ **6,420**	$ 8,211	$ (1,791)	-22%

The revenue of the Manufacturing segment for the current quarter was $45.9 million, a decrease of $9.6 million or 17% from the comparative period. The Manufacturing segment generated EBITDA of $6.4 million for the current quarter, a decrease of $1.8 million or 22% from the comparative period. EBITDA margins were 14.0% in the current period versus 14.8% in the comparative period.

Challenging economic conditions due to low energy prices persisted into the current quarter throughout the Alberta Operations' regions. These challenges were further exacerbated by the economic disruption caused by the partial destruction of Fort McMurray and the temporary shutdown of certain production facilities, some of which are coming back on line. These conditions led to reduced demand that contributed to the Alberta Operations' EBITDA decreasing significantly from the comparative period.

WesTower's EBITDA was unchanged from the prior period in spite of a slight decline in revenue. The improvement in margin is as a result of a change in product mix away from construction. Regional variations in customer demand persisted during the current quarter with a higher volume of activity in western Canada. WesTower's national presence allowed it to mobilize available crews from eastern Canada into the western regions.

During the current period revenues declined at Stainless as a result of softer bookings earlier in the year. The reduced customer demand drove available capacity up within the marketplace. As the third quarter progressed, the demand for Stainless products has increased, with the outlook for their order book being the strongest it has been this year.

Ben Machine's revenue and EBITDA fell marginally during the current quarter as customer demand and product mix fluctuated.

The Corporation remains confident that the Manufacturing segment's industry and geographic diversification and strong operating company management teams are competitively positioned within their respective markets to successfully withstand the specific immediate challenges they face.

HEAD-OFFICE

Head-office Costs	Three Months Ended September 30,	2016		2015		Variance	Variance %
Expenses	$	3,966	$	3,680	$	286	8%

The head-office costs of the Corporation increased by $0.3 million over the comparative period. This was a result of higher headcount at head-office and a slight increase in professional costs.

OTHER NON-EBITDA ITEMS

Three Months Ended September 30,		2016		2015		Variance	Variance %
Depreciation and amortization	$	23,650	$	22,753	$	897	4%

The Corporation's depreciation and amortization for the current quarter was $23.7 million, an increase of $0.9 million or 4% over the comparative period. Depreciation on the Corporation's capital assets was $20.9 million of the current amount and the remaining $2.8 million related to intangible asset amortization. The variance is mainly attributable to the increase in the Aerospace & Aviation segment for capital asset depreciation.

Three Months Ended September 30,		2016		2015		Variance	Variance %
Finance costs - interest	$	7,132	$	7,426	$	(294)	-4%

The Corporation's interest incurred for the current quarter was $7.1 million, a decrease of $0.3 million or 4% from the comparative period. The early redemption of the Series J convertible debentures resulted in reduced interest of $1.2 million. Offsetting these savings was the issuance of the June 2016 unsecured convertible debentures resulting in $1.0 million of interest for which there is no comparative. Overall, the interest on the Corporation's convertible debentures decreased in the current quarter by $0.2 million.

During the period, interest on the Corporation's credit facility was flat compared to the prior period. The overall effective interest rate on the Corporation's credit facility is 3.62% for the current quarter, which includes standby charges on the unused portion of the credit facility. The Corporation strategically chooses to have significant available credit, giving the Corporation the opportunity to act quickly when the right opportunity presents itself, resulting in higher standby charges.

Three Months Ended September 30,		2016		2015		Variance	Variance %
Acquisition Costs	$	500	$	1,168	$	(668)	-57%

The acquisition costs incurred by the Corporation for the current quarter were $0.5 million compared to $1.2 million in the comparative period. Professional fees are expensed as acquisition costs as incurred and this can fluctuate based on the acquisition activities of the Corporation.

Three Months Ended September 30,		2016		2015		Variance	Variance %
Current income tax expense	$	8,245	$	6,101	$	2,144	35%
Deferred income tax expense		(96)		621		(717)	-115%
Income tax expense	$	8,149	$	6,722	$	1,427	21%

The Corporation's income tax expense for the current period was $8.1 million, an increase of $1.4 million over the comparative period. Current tax expense increased in the current period due to an overall increase in the Corporation's earnings before taxes as well an increase in the proportionate share of earnings generated in certain jurisdictions which are subject to a higher tax rate than in Canada. The Corporation is in the process of expanding the jurisdictions in which it operates and this is expected to proportionately reduce current taxes incurred in 2017 and beyond.

The effective tax rate decreased to 28% from 30% in the comparable period resulting from a smaller proportion of permanent differences than in the 2015 comparative period. The deferred tax recovery in the current quarter resulted primarily from transactions between subsidiaries of the Corporation for which no profit is currently recognized in the financial statements, but which would be taxable in the current period, as well as the impact of accounting depreciation and amortization charges in excess of what is currently available to be deducted for tax purposes.

Nine Month Results

The following section analyzes the financial results of the Corporation for the nine months ended September 30, 2016 and the comparative 2015 period.

	Nine Months Ended September 30, 2016			
	Aerospace & Aviation	Manufacturing	Head Office[2]	Consolidated
Revenue	$ 529,382	$ 139,987	$ -	$ 669,369
Expenses[1]	373,793	122,364	11,941	508,098
EBITDA	155,589	17,623	(11,941)	161,271
Depreciation and amortization				68,824
Finance costs - interest				22,489
Acquisition costs				872
Earnings before income tax				69,086
Current income tax expense				21,230
Deferred income tax expense				188
Net earnings				$ 47,668

	Nine Months Ended September 30, 2015			
	Aerospace & Aviation	Manufacturing	Head Office[2]	Consolidated
Revenue	$ 440,603	$ 142,296	$ -	$ 582,899
Expenses[1]	312,659	126,222	10,833	449,714
EBITDA	127,944	16,074	(10,833)	133,185
Depreciation and amortization				61,883
Finance costs - interest				22,943
Acquisition costs				4,356
Earnings before income tax				44,003
Current income tax expense				11,630
Deferred income tax expense				2,062
Net earnings				$ 30,311

Note 1): Expenses include aerospace & aviation expenses (excluding depreciation and amortization), manufacturing expenses (excluding depreciation and amortization) and general and administrative expenses.

Note 2): Head-office is not a separate reportable segment. It includes expenses incurred at the head-office of the Corporation and is presented for reconciliation purposes.

AEROSPACE & AVIATION SEGMENT

Aerospace & Aviation Segment — Nine Months Ended September 30,	2016	2015	Variance	Variance %
Revenue	$ 529,382	$ 440,603	$ 88,779	20%
Expenses	373,793	312,659	61,134	20%
EBITDA	$ 155,589	$ 127,944	$ 27,645	22%

The revenue of the Aerospace & Aviation segment for the nine month period ended September 30, 2016 was $529.4 million, an increase of $88.8 million or 20% over the comparative period. The increase in revenue for the segment is attributable to the continued growth across the segment.

The EBITDA generated by the Aerospace & Aviation segment for nine month period ended September 30, 2016 was $155.6 million, an increase of $27.6 million or 22% over the comparative period. EBITDA margins were 29.4% in the nine months ended September 30, 2016 versus 29.0% in the comparative period. EBITDA growth was attributable to increases throughout each of the segment components.

Provincial's strong revenue and EBITDA growth during the nine month period were primarily driven by growth in the Middle East operations resulting from the new multi-year contract announced in November 2015. Despite challenging macroeconomic conditions across the region, caused by weakness in the energy and mining industries and reductions in government spending as well as increased airline competition, Provincial was able to sustain strong growth through diligent management and the resilience of its diversified revenue base. The reduced value of the Canadian dollar versus the US dollar also had a positive impact for US denominated aerospace contracts.

Consistent with the three month discussion, Regional One generated significant revenue and EBITDA growth in nine month period, driven by strong lease revenue and increased aircraft and part sales. This growth was largely driven by previous and ongoing investments made in aircraft. The first nine months of 2016 included increased sales of operating aircraft, enhancing already strong revenue and EBITDA performance versus the prior period. Regional One's results were also positively impacted from gains due to the higher conversion rates used to convert its US dollar results into the Corporation's Canadian reporting currency.

The Legacy Airlines strong revenue and EBITDA growth over the first nine months of 2016 was primarily attributable to the investment in capital assets and the successful integration of those assets, strong organic growth, and ongoing management initiatives to improve efficiency and reduce costs. Implementation of the initiatives to improve operational efficiencies did result in one-time severance costs relating to layoffs during the first nine months of 2016. Improvement in EBITDA was partially offset by shortfalls due to decreased rotary wing fire suppression work due to an abnormally wet season in Manitoba, surplus competitive capacity in one region in which the Legacy Airlines operate, and the closure of a mine the Legacy Airlines had serviced.

The operations of both Provincial's airline and the Legacy Airlines benefited from fuel cost savings, particularly in the first half of the year. These savings, however, were partially offset by the increased cost of aircraft parts, maintenance, and flight training costs due to the depreciation in the Canadian dollar compared to the prior year.

MANUFACTURING SEGMENT

Manufacturing Segment	Nine Months Ended September 30,	2016	2015	Variance	Variance %
Revenue		$ 139,987	$ 142,296	$ (2,309)	-2%
Expenses		122,364	126,222	(3,858)	-3%
EBITDA		$ 17,623	$ 16,074	$ 1,549	10%

The revenue of the Manufacturing segment for the nine month period ended September 30, 2016 was $140.0 million, a decrease of $2.3 million or 2% from the comparative period. The Manufacturing segment generated EBITDA of $17.6 million for the nine months ended September 30, 2016, an increase of $1.5 million or 10% over the comparative period. Revenue and EBITDA growth is attributable to the acquisition of Ben Machine in the third quarter of 2015, with results in only a portion of the comparative prior period. EBITDA margins for the segment increased to 12.6% for the nine month period ended September 30, 2016, up from 11.3% in the comparative prior period. The increase in margins is largely driven by the change in product mix with the acquisition of Ben Machine.

Consistent with the three month discussion, EBITDA at WesTower was flat in the nine months ended September 30, 2016 compared to the same period in 2015 despite a slight decrease in revenue. The improvement in margin is as a result of a change in product mix away from construction. Stainless' solid performance early in the year, driven partially by the weaker value of the Canadian dollar and a strong order book at the end of 2015, reversed itself as demand declined in the current period. This left Stainless' revenue down for the first nine months, with EBITDA only slightly off from the comparative prior period. As the third quarter progressed, however, the demand for Stainless' products has increased, with the outlook for their order book at quarter end stronger than it has been all year.

Consistent with the three month discussion, the Alberta Operations were negatively impacted by weak economic conditions, caused by low energy prices, which are negatively impacting demand for the Alberta Operations' products and services.

Ben Machine revenue and EBITDA remained in line with expectations over the nine months ended September 30, 2016.

HEAD-OFFICE

Head-office Costs	Nine Months Ended September 30,	2016	2015	Variance	Variance %
Expenses		$ 11,941	$ 10,833	$ 1,108	10%

The head-office costs of the Corporation increased for the first nine months of 2016 by $1.1 million or 10% from the comparative period as a result of an increase in headcount and performance based compensation, partially offset by a decrease in professional fees.

OTHER NON-EBITDA ITEMS

Nine Months Ended September 30,	2016	2015	Variance	Variance %
Depreciation and amortization	$ 68,824	$ 61,833	$ 6,991	11%

The Corporation's depreciation and amortization for the nine months ended September 30, 2016 was $68.8 million, an increase of $7.0 million or 11% over the comparative period. The first nine months of 2016 included $60.3 million of depreciation on the Corporation's capital assets and the remaining $8.5 million related to intangible asset amortization. The change is mostly attributable to the increase in the Aerospace & Aviation segment for capital asset depreciation, accounting for $4.7 million of the increase. The main factors causing the increase are the expansion of Regional One's lease portfolio and the decreased value of the Canadian dollar compared to the prior period. The Manufacturing segment experienced an increase of $1.9 million, which is attributable to the acquisition of Ben Machine. Ben Machine was acquired during the third quarter of 2015 and as such, there is no comparative depreciation and amortization for the first six months of 2016. Ben Machine's depreciation and amortization expense for the first six months of 2016 was $1.9 million, including $1.6 million relating to the amortization of intangible assets that were recognized as part of the purchase price allocation for which there is no comparative in the prior period.

Nine Months Ended September 30,	2016	2015	Variance	Variance %
Finance costs - interest	$ 22,489	$ 22,943	$ (454)	-2%

The Corporation's interest incurred for the nine months ended September 30, 2016 was $22.5 million, a decrease of $0.5 million or 2% from the comparative period. Interest on the Corporation's convertible debentures decreased by $1.3 million from the prior period. The decrease is a result of interest savings from the early redemption of the Series I convertible debentures at the end of the first quarter of 2015, the redemption of the Series H convertible debentures at the beginning of the third quarter of 2015 and the redemption of the Series J convertible debentures in the second quarter of 2016. This resulted in $3.5 million in interest savings. Offsetting these savings was increased non-cash interest accretion of $1.1 million as a result of the early redemption of the Series J convertible debentures that would not have been incurred during the period but for the early redemption. In addition, the issuance of the June 2016 unsecured debentures offering resulted in an increase in interest expense of $1.1 million.

The decrease in convertible debenture interest was partially offset by an increase in interest of $0.8 million on the Corporation's credit facility. The overall effective interest rate on the Corporation's credit facility is 3.76% for the first nine months of 2016, which includes standby charges on the unused portion of the credit facility. The Corporation strategically chooses to have significant available credit, giving the Corporation the opportunity to act quickly when the right opportunity presents itself, resulting in higher standby charges.

Nine Months Ended September 30,	2016	2015	Variance	Variance %
Acquisition Costs	$ 872	$ 4,356	$ (3,484)	-80%

The acquisition costs incurred by the Corporation for the nine months ended September 30, 2016 totaled $0.9 million compared to $4.4 million in the comparative period. The Corporation incurred minimal external costs during the first nine months of 2016. The costs expensed in the comparative period relate mainly to the external costs incurred for the Provincial and Ben Machine acquisitions and development opportunities within Provincial's business.

Nine Months Ended September 30,	2016	2015	Variance	Variance %
Current income tax expense	$ 21,230	$ 11,630	$ 9,600	83%
Deferred income tax expense	188	2,062	(1,874)	-91%
Income tax expense	$ 21,418	$ 13,692	$ 7,726	56%

The Corporation's income tax expense for the nine months ended September 30, 2016 was $21.4 million, an increase of $7.7 million over the comparative period. The effective tax rate remained consistent with the comparable period at 31%. The effective tax rate for the current period reflects the impact of both a $1 million charge to deferred income tax expense in 2016 arising from a change in the statutory tax rate in one of the jurisdictions in which the Corporation operates as well as an increase in the proportionate share of earnings generated in certain jurisdictions which are subject to a higher tax rate than in Canada. The impact of these charges was offset by lower income tax expense in the period resulting from a smaller proportion of non-deductible permanent differences than in the 2015 comparative period which included costs associated with the acquisition of Provincial.

The Corporation is in the process of expanding the jurisdictions in which it operates and this is expected to proportionately reduce current taxes incurred in 2017 and beyond.

The reduction in deferred tax expense in the nine months ended September 30, 2016 from the comparative period resulted primarily from a deferred tax benefit arising from transactions between subsidiaries of the Corporation for which no profit is currently recognized in the financial statements, but which would be taxable in the current period, as well as the impact of accounting depreciation and amortization charges in excess of what is currently available to be deducted for tax purposes.

5. SUMMARY OF QUARTERLY RESULTS

The following summary of quarterly results reflects the continuing operations of the Corporation. During the fourth quarter of 2014, the Corporation closed the sale of WesTower US. As a result of the transaction, the Corporation's results for 2014 are presented with the financial results from WesTower US segregated in the Corporation's statement of income as discontinued operations. The discontinued operations are only included in the net earnings (loss) and related per share amounts in the bottom section of the table. There was no impact on results from discontinued operations for the 2016 and 2015 periods.

			2016				2015		2014
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Total revenue	$ 224,620	$ 226,851	$ 217,898	$ 224,504	$ 212,750	$ 196,214	$ 173,935	$ 138,726	$ 143,499
EBITDA	60,012	56,928	44,331	46,055	54,052	48,053	31,080	26,151	27,872
Net earnings (loss) - continuing operations	20,581	17,214	9,873	9,923	15,983	13,394	934	(17,729)	5,172
Basic	0.72	0.62	0.36	0.36	0.64	0.58	0.04	(0.79)	0.23
Diluted	0.67	0.59	0.35	0.35	0.60	0.54	0.04	(0.79)	0.23
Adjusted net earnings (loss) - continuing operations(1)	23,127	20,388	12,008	12,636	18,811	16,516	4,299	5,915	6,061
Basic	0.81	0.74	0.43	0.46	0.76	0.71	0.19	0.26	0.27
Diluted	0.74	0.69	0.43	0.45	0.69	0.64	0.18	0.26	0.27
Free Cash Flow (FCF)	45,873	42,683	34,890	36,025	42,195	37,626	23,926	22,480	22,819
Basic	1.60	1.54	1.26	1.31	1.70	1.63	1.04	1.00	1.03
Diluted	1.37	1.34	1.10	1.14	1.43	1.33	0.88	0.84	0.86
FCF less maintenance capital expenditures	26,484	25,476	16,801	20,460	24,966	19,870	9,109	11,718	13,143
Basic	0.93	0.92	0.61	0.74	1.01	0.86	0.40	0.52	0.59
Diluted	0.84	0.84	0.58	0.69	0.89	0.75	0.39	0.50	0.54
From continuing & discontinuing operations									
Net earnings / (loss)	20,581	$ 17,214	$ 9,873	$ 9,923	$ 15,983	$ 13,394	$ 934	$ (1,580)	$ 5,546
Basic	0.72	0.62	0.36	0.36	0.64	0.58	0.04	(0.07)	0.25
Diluted	0.67	0.59	0.35	0.35	0.60	0.54	0.04	(0.07)	0.25

(1) The Corporation's adjusted net earnings from continuing operations for the fourth quarter of 2014 includes an add back for the non-cash deferred tax expense of $22.9 million as a result of the settlement that the Corporation made with the Canada Revenue Agency ("CRA") on certain deferred tax assets associated with the conversion of the Corporation to a corporation from an income trust in 2009.

6. LIQUIDITY AND CAPITAL RESOURCES

Our financial position continued to strengthen in 2016. This strengthening is attributable to continued strong operating performance and organic growth. The Corporation's working capital, Free Cash Flow and capital resources are strong and we have no long-term debt or debentures maturing before 2019. As a result, we have sufficient liquidity and access to capital to make further acquisitions, invest in our operating subsidiaries and meet our obligations.

As at September 30, 2016, the Corporation had a cash position of $16.0 million (December 31, 2015 of $15.5 million) and net working capital of $150.8 million (December 31, 2015 of $135.3 million), which represents a current ratio of 1.90 to 1 (December 31, 2015 of 1.74 to 1).

	September 30, 2016	December 31, 2015	Change
Cash and cash equivalents	$ 15,975	$ 15,497	$ 478
Accounts receivable	147,047	125,434	21,613
Costs incurred plus recognized profits in excess of billings	9,886	7,776	2,110
Inventory	114,493	118,645	(4,152)
Prepaid expenses and deposits	31,149	38,907	(7,758)
Income taxes receivable	-	10,955	(10,955)
Accounts payable and accrued expenses	(112,286)	(108,333)	(3,953)
Income taxes payable	(4,542)	-	(4,542)
Deferred revenue	(42,266)	(51,716)	9,450
Billings in excess of costs incurred plus recognized profits	(7,615)	(20,824)	13,209
Current portion of long-term debt and finance leases	(1,058)	(1,031)	(27)
Net working capital	$ 150,783	$ 135,310	$ 15,473

Working capital has increased by $15.5 million since December 31, 2015. This increase is partially attributable to the increase in working capital at the Corporation's Legacy Airlines, which is consistent with expectation as these entities experience heavier volumes of business during the summer months. In addition, accounts receivable for Regional One included the sale of an operating aircraft which was sold just prior to the end of the quarter.

During 2016, the Corporation made a strategic decision to set up central purchasing in Canada to reduce the cost of parts for the Legacy Airlines and to facilitate intercompany sales between the Legacy Airlines and Regional One.

The Corporation obtained additional cash through the means described in this section, and also generated $123.4 million of Free Cash Flow from operations during the first nine months of 2016, a 19% improvement from the comparative period. The Corporation used these funds for its dividends and capital expenditures over that period. See Section 3 – *Key Performance Indicators* for more information on the capital expenditures made by the Corporation.

While payment of reliable and growing dividends is an objective of the Corporation, the Corporation does not have a formal dividend policy. The Corporation's dividends are dependent on its ability to generate cash flow from operations and Free Cash Flow. During the first nine months of 2016, the Corporation declared dividends totaling $41.5 million in comparison to $32.0 million during the comparative period. This was a result of an increased number of Shares outstanding and the $0.015 increase in the monthly dividend rate announced in August of 2015 and the $0.0075 increase in the monthly dividend rate announced in May of 2016. The monthly dividend declared in any given month is paid to shareholders at the middle of the following month.

Overview of Capital Structure

The Corporation's capital structure is summarized below.

	September 30 2016	December 31 2015
Total senior debt outstanding (principal value)	$ 386,006	$ 304,799
Convertible debentures outstanding (par value)	231,488	219,965
Shares	456,518	425,561
Total capital	$ 1,074,012	$ 950,325

Credit facility

The Corporation's credit facility consists of $500 million allocated to the Corporation's Canadian head-office and US $50 million allocated to EIIF Management USA Inc. The facility allows for borrowings to be denominated in either Canadian or US funds. At September 30, 2016, the Corporation had drawn $262.8 million and US $93.9 million (December 31, 2015 - $248.0 million and US $41.0 million).

During the first nine months of 2016, the Corporation made additional draws on the credit facility to support capital purchases, mainly relating to the addition of aircraft to Regional One's lease portfolio and the acquisition of CarteNav. In addition, the Corporation used the net proceeds from the issuance of the 2016 unsecured debenture series to pay down its credit facility. Partially offsetting this repayment was a draw on the credit facility to repay the Series J debenture series on June 30, 2016.

Convertible Debentures

The following summarizes the convertible debentures outstanding as at September 30, 2016 and the changes in the amount of convertible debentures outstanding during the nine months ended September 30, 2016:

Series - Year of Issuance	Trade Symbol	Maturity	Interest Rate	Conversion Price
Unsecured Debentures - 2012	EIF.DB.E	September 30, 2019	5.5%	$36.80
Unsecured Debentures - 2013	EIF.DB.F	March 31, 2020	5.35%	$41.60
Unsecured Debentures - 2014	EIF.DB.G	March 31, 2021	6.0%	$31.70
Unsecured Debentures - 2016	EIF.DB.H	June 30, 2023	5.25%	$44.75

Par value	Balance, beginning of period	Issued	Converted	Redeemed / Matured	Balance, end of period
Series J	$ 57,477	$ -	$ (27,120)	$ (30,357)	$ -
Unsecured Debentures - September 2012	57,500	-	-	-	57,500
Unsecured Debentures - March 2013	65,000	-	-	-	65,000
Unsecured Debentures - March 2014	39,988	-	-	-	39,988
Unsecured Debentures - June 2016	-	69,000	-	-	69,000
Total	$ 219,965	$ 69,000	$ (27,120)	$ (30,357)	$ 231,488

During the second quarter, the early redemption of the Series J Convertible Senior Secured Debentures resulted in the Corporation settling the respective outstanding principal at June 30, 2016. As part of the settlement, the Corporation issued 886,264 Shares associated with the conversion of $27.1 million of principal and the remaining $30.4 million, plus accrued interest, was paid in cash to the debentureholders on the redemption date.

During the second quarter, the Corporation closed the offering of its June 2016 Unsecured Series 5.25% seven year convertible debentures with a par value of $69.0 million and generated net proceeds of $65.6 million. The majority of the funds generated were used by the Corporation as a payment against its outstanding credit facility and increased the liquidity of the Corporation. The debentures have a seven year term with a 5.25% fixed interest rate paid semi-annually. The conversion price for these debentures is $44.75 and will mature in June 2023.

Share Capital

The following summarizes the changes in the Shares outstanding of the Corporation during the nine months ended September 30, 2016:

	Date issued (redeemed)	Number of shares
Shares outstanding, beginning of period		27,633,217
Issued upon conversion of convertible debentures	various	886,264
Issued under dividend reinvestment plan (DRIP)	various	137,979
Shares cancelled under NCIB	February 2, 2016	(57,710)
Issued under deferred share plan	August 12, 2016	4,045
Shares outstanding, end of period		28,603,795

The Corporation's dividend reinvestment plan ("DRIP") continued during the first nine months of 2016 and the Corporation received $3.9 million throughout the period for an aggregate 137,979 Shares being issued in accordance with the DRIP.

The Corporation raised funds through a $75 million bought deal equity offering in the third quarter of 2015, resulting in 3,019,000 Shares issued at that time. This increase late in the year in 2015 is impacting all of the per share calculations during the 2016, with only a small impact on 2015 per share amounts.

The average Shares outstanding for three and nine months ended September 30, 2016 increased 15% and 18%, respectively, over the comparative period. This increase for both periods is mainly as a result of the Series J convertible debentures conversions and the bought deal equity offering in September of 2015. The increase in the average Shares outstanding is impacting all of the per share calculations in the current period.

Normal Course Issuers Bid

On December 31, 2015, the Corporation received approval from the TSX for the renewal of its NCIB to purchase up to an aggregate of 1,381,659 Shares, representing 5% of the issued and outstanding Shares as at December 16, 2015. Purchases of Shares pursuant to the renewed NCIB may be made through the facilities of the TSX commencing on January 5, 2016 and ending on January 4, 2017, or an earlier date in the event that the Corporation purchases the maximum number of the Shares available under the NCIB. The maximum number of Shares that may be purchased by the Corporation on a daily basis is 19,810 Shares, other than block purchase exemptions. As of the date of this report, there are 1,323,949 Shares available for purchase under the NCIB ending January 4, 2017.

During the first nine months of 2016, the Corporation purchased a total of 57,710 Shares through its NCIB over several days of trading. The Corporation paid $1.3 million to purchase these Shares, with an average purchase price of $22.25. All of these purchased Shares under the current NCIB were cancelled on February 2, 2016.

7. RELATED PARTY TRANSACTIONS

The related party transactions that the Corporation entered into during the nine months ended September 30, 2016 are consistent with those described in the Corporation's MD&A for the year ended December 31, 2015.

8. CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements requires management to use judgment in applying its accounting policies and estimates and assumptions about the future. Estimates and other judgments are continuously evaluated and are based on management's experience and other factors, including expectations about future events that are believed to be reasonable under the circumstances. There were no changes to the Corporation's critical accounting estimates and judgments from those described in the MD&A of the Corporation for the year ended December 31, 2015, except as noted below.

During the first quarter, the Corporation recognized an out of period adjustment in relation to the determination of goodwill associated with the acquisition of Provincial Aerospace Ltd. The Corporation incorrectly recorded a deferred tax benefit related to a provision for a non-deductible payment to the vendors. The out of period adjustment resulted in an increase to goodwill and deferred tax liabilities of $3.1 million and had no impact on net income.

9. ACCOUNTING POLICIES

The accounting policies of the Corporation used in the determination of the results for these interim condensed consolidated financial statements for the nine months ended September 30, 2016 that are discussed and analyzed in this report are described in detail in Note 3 of the Corporation's 2015 annual consolidated financial statements and Note 3 of the Corporation's interim condensed consolidated financial statements for the nine months ended September 30, 2016.

The significant accounting policies and methods of computation used in the preparation of these interim condensed consolidated financial statements are the same as those described in Note 3 – Significant Accounting Policies of the Corporation's 2015 annual consolidated financial statements, except for the changes noted below:

a) *Changes in Accounting Policies*

Adoption of IFRS 9 – Financial Instruments

The Corporation has early adopted IFRS 9 – Financial Instruments, with a date of initial application of January 1, 2016. IFRS 9 introduces a principles-based approach to the classification and measurement of financial assets based on an entity's business model and the nature of a financial asset's cash flows. All financial assets, including hybrid contracts, are measured at fair value through profit or loss ("FVTPL"), fair value through other comprehensive income or amortized cost. IFRS 9 introduces an

expected loss impairment model for all financial assets not carried at FVTPL. IFRS 9 also introduces a new hedge accounting model that aligns the accounting for hedge relationships more closely with an entity's risk management activities.

All financial assets previously classified as Loans and Receivables are now classified at amortized cost. There were no changes to the measurement category for financial liabilities at amortized cost.

At the date of adoption, the application of IFRS 9 had no impact on the Corporation's consolidated financial statements.

Recognition

Financial assets and liabilities are recorded on the statement of financial position of the Corporation when the Corporation becomes a party to the financial instrument.

Classification

Effective the date of adoption, the Corporation classifies its financial assets and liabilities into the following measurement categories:

- those measured subsequently at fair value, either through profit or loss or through OCI
- those measured at amortized cost

The classification of the financial asset or liability is dependent on the business model and the nature of the cash flows associated with the financial asset or liability. The Corporation will only change the classification of financial assets when the model for managing those financial assets has changed. The classification of financial liabilities cannot be changed from the classification election chosen at the time of recognition.

The Corporation's cash and cash equivalents are classified as financial assets measured at FVTPL. Accounts receivable and deposits are classified as financial assets measured at amortized cost. Accounts payable, the Corporation's credit facility, and convertible debentures are classified as financial liabilities. All financial assets and liabilities measured at amortized cost use the effective interest rate method with interest expense recorded in the statement of operations, as applicable.

Measurement

IFRS requires that an entity measure a financial asset or liability at its fair value plus or minus, in the case of a financial asset or liability not measured at FVTPL, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability. After initial recognition, the entity shall measure a financial asset at one of amortized cost, fair value through OCI, or fair value through profit or loss. Measurement of financial liabilities is chosen at the time of initial recognition and unless specifically identified as FVTPL at the time of adoption, are subsequently measured at amortized cost. The requirements of IFRS 9 in relation to classification and measurement of financial liabilities are consistent with the requirements previously included under IAS 39, except that changes in fair value due to credit risk for liabilities designated as FVTPL under IFRS 9 are recorded in other comprehensive income.

Impairment

IFRS substitutes the incurred loss model under IAS 39 with the expected losses model. Expected credit losses are to be recognized at all times in a forward looking approach that reflects changes in credit risk of the financial instruments.

Hedge Accounting and Derivatives

On the date a derivative is entered into, the instrument is recognized at fair value and re-measured at the end of each reporting period. The accounting for a derivative contract depends on whether the derivative is designated as a hedging instrument. If it is designated as a hedging instrument, the accounting treatment is dependent on the nature of the hedged item and the hedging relationship. At the date of adoption and throughout the period, the Corporation was not party to any derivatives and therefore there was no impact to the financial statements of the Corporation.

The Corporation's hedging policy, which has not changed as a result of the adoption of IFRS 9, is included in Note 3 (g) of the Corporation's annual financial statements for the year ended December 31, 2015.

b) *Accounting Standards Issued but not yet effective*

IFRS 15 – Revenue

In May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers, a new standard that specifies the steps and timing for entities to recognize revenue as well as requiring them to provide more informative, relevant disclosures. IFRS 15 supersedes IAS 11, Customer Contracts, and IAS 18, Revenue, as well as various IFRIC and SIC interpretations regarding

revenue. Adoption of IFRS 15 will be effective for the Corporation beginning on January 1, 2018, with earlier adoption permitted. The Corporation is assessing the impact of adopting this standard on its financial statements.

IFRS 16 – Leases

IFRS 16 replaces IAS 17 Leases and related interpretations. The core principle is that a lessee recognize assets and liabilities for all leases with a lease term of more than 12 months. A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments (including inflation-linked payments), and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. The new standard is intended to provide a faithful representation of leasing transactions, in particular those that do not currently require the lessees to recognize an asset and liability arising from an operating lease. IFRS 16 is effective for annual periods beginning on January 1, 2019, with early adoption permitted for entities that would also apply IFRS 15 Revenue from Contracts with Customers. The Corporation is assessing the impact of adopting this standard on its financial statements.

10. CONTROLS AND PROCEDURES

Internal Controls over Financial Reporting

Management is responsible for establishing and maintaining internal controls over financial reporting in order to provide reasonable assurance with regards to the reliability of financial reporting and preparation of financial statements in accordance with IFRS, as defined under National Instrument 52-109 issued by the Canadian Securities Administrators. Consistent with the concept of reasonable assurance, the Corporation recognizes that all systems of internal controls, no matter how well designed, have inherent limitations. As such, the Corporation's internal controls over financial reporting can only provide reasonable, and not absolute, assurance that the objectives of such controls are met.

An assessment of internal controls over financial reporting was conducted by the Corporation's management, under supervision by the Chief Executive Officer and Chief Financial Officer. Management has used the 2013 Internal Control – Integrated Framework to evaluate the Corporation's internal controls over financial reporting, which is recognized as a suitable framework developed by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

Management has evaluated the design of the Corporation's internal controls over financial reporting as at September 30, 2016, and has concluded that the design of internal controls over financial reporting are effective.

There have been no material changes to the Corporation's internal controls during the 2016 period that would have materially affected or are likely to materially affect the internal controls over financial reporting.

Disclosure Controls and Procedures

Management has established and maintained disclosure controls and procedures in order to provide reasonable assurance that material information relating to the Corporation is made known to management in a timely manner and that information required to be disclosed by the Corporation is reported within the time periods prescribed by applicable securities legislation. Management has concluded that disclosure controls and procedures were designed effectively as at September 30, 2016.

11. RISK FACTORS

The Corporation and its subsidiaries are subject to a number of business risks. These risks relate to the structure of the Corporation and to the operations at the subsidiary entities. There were no changes to the Corporation's principal risks and uncertainties from those reported in the Corporation's MD&A for the year ended December 31, 2015.

12. OUTLOOK

Acquisition strategy

The Corporation's disciplined approach to acquisitions is a key factor in the success that it has experienced to date. The acquisition of Team J.A.S. subsequent to quarter end together with the acquisition of CarteNav, while relatively small, are emblematic of the opportunities that continue to exist in the market that are both strategic to our existing businesses and are immediately accretive on a standalone basis.

Valuations of larger company transactions, particularly in the United States, remain expensive by most objective historical measures. Despite this phenomenon, that the Corporation believes to be transitory, the Corporation will remain vigilant and dedicated to the proven acquisition discipline that has been a primary source of the sustained, profitable growth the Corporation has delivered to shareholders.

The Corporation continues to develop and expand its network of referral sources that regularly present it with potential acquisitions. The Corporation also independently assesses certain markets and regions to identify potential opportunities. The Corporation's business development team remains focused on accretive acquisition and investment opportunities that can positively impact shareholder value. While the deal flow brought to the Corporation is considered strong, there can be no assurance target companies meeting the Corporation's standards will be identified.

The Corporation has addressed the overpriced acquisition market by investing internally in organic growth opportunities. The ability to switch between internal and external investments to maximize the return on capital allows the Corporation to deploy capital to grow revenue and EBITDA without having to participate in a marketplace where valuations of larger company transactions are higher than the Corporation is willing to pay.

The Corporation remains well positioned and well capitalized to move quickly when investment opportunities are identified. As of the end of the quarter, the Corporation has approximately $180 million of undrawn credit facility to fund investment opportunities.

Aerospace & Aviation Segment

The Aerospace & Aviation segment includes: the five Legacy Airlines, providing fixed and rotary wing, scheduled, charter, cargo, and medevac services in Manitoba, Ontario and Nunavut; Regional One, a leading provider of aircraft and engine aftermarket parts to regional airline operators in the global community; and Provincial, with three distinct business units: a scheduled airline, aerospace and fixed base operations.

A large percentage of the Corporation's Legacy Airlines and Provincial's airline service operate in remote communities where demand is relatively inelastic, mitigating the impact of changes in the economic climate. The essential nature of these services creates stability in a core part of the segment's business. Demand from natural resources related industries for aviation services provided by our Legacy airlines has been limited for a number of years due to the persistent global weakness in commodity prices. As such, any further erosion in demand from natural resources related industries will be inconsequential to the Legacy airlines' financial performance.

Previous investments in growth capital expenditures in the Legacy Airlines aircraft and ground infrastructure assets have yielded ongoing revenue and EBITDA growth. Perimeter has grown since it acquisition in 2004 but its market share in its current geographic region has matured. In order to further grow the operations, an expansion of geographic region is required. We have chosen Northwestern Ontario because of its similar geography and customer base. We fully expect to operate in Northwestern Ontario at a loss for a period, but over time we will achieve historical profitability experienced at Perimeter in Manitoba. The Legacy Airlines continue to identify other organic growth opportunities through the expansion of services to existing and prospective customers and communities.

The acquisition of a Eurocopter EC135 twin engine helicopter was completed in the second quarter of 2016 and was placed into service during the third quarter. The EC135 will introduce significant additional capabilities to the rotary wing operation, including IFR (instrument flight rules) and night authorization. These expanded operational capabilities combined with the enhanced range, lift and safety of the twin engine EC135 will enable the rotary wing operation to pursue new opportunities, including specific work for powerline construction and maintenance, oil and gas, and Emergency Medical Services. Customers for the EC135 are not as weather sensitive as our existing customers.

Provincial's aerospace services division is pursuing a number of growth opportunities within Canada and internationally, in addition to the Performance Based Logistics Contract in the Middle East. These opportunities include Provincial's expansion of its information technology capabilities through the acquisition of CarteNav. In addition, the development of its own surveillance aircraft will provide Provincial an enhanced ability to demonstrate its capabilities around the world and provide services where required with rapid response.

Provincial is actively involved with its participation in one of three consortiums of aerospace companies pursuing the government of Canada's request for proposals to supply Fixed Wing Search and Rescue aircraft and associated support throughout Canada. However, the procurement process for many of these opportunities can be very lengthy and the binary "win/loss" nature of the contract awards makes forecasting the impact and timing of any specific opportunity challenging.

Challenging macroeconomic conditions caused by low commodity and energy prices and reduced provincial government spending continue to reduce demand for Provincial's airline services from natural resource related customers and provincial governments reliant on natural resource related royalties. Increased competition within the island region has further impacted margins. Helping to mitigate these factors is the expansion to underground operations at the Voisey's Bay nickel/copper/cobalt mine in northern Labrador that has commenced. This expansion will generate incremental demand for airline services that will grow over time to be a significant source of growth both during the multi-year construction phase of the project, and the extended life of the mine that is anticipated to run through 2040.

Regional One continues to invest in the growth of its aircraft platforms as market conditions remain positive. Strong demand for lease and parts inventories has been augmented with additional growth in revenue and EBITDA as the growing stock of aircraft are monetized. During the first nine months of 2016, Regional One has invested in net 11 aircraft, including the impact of the sale of six aircraft during the period. These aircraft have been added to the company's lease portfolio. Regional One's timing of such investments is fluid based on market conditions. The acquisition of Team J.A.S., subsequent to quarter end, will add the de Havilland DHC-6 Twin Otter aircraft as a new model type that Regional One will support and market globally.

In order to further grow and enhance the management of its lease portfolio, the Corporation has plans to expand its aircraft leasing business in Ireland. Ireland has a very large and mature aircraft leasing industry with a large workforce that has the expertise to manage this type of business. This, combined with our current presence in Ireland, makes it an ideal location for the expansion of our aircraft leasing business. The expansion is expected to reduce current taxes as a larger proportion of the Corporation's earnings will be based in Ireland, which has a lower statutory tax rate.

The appreciation of the US dollar relative to most other currencies along with reduced global jet fuel prices has improved the economic viability of airlines' continued operation of older aircraft. The extended economic viability of older aircraft is a positive driver of demand for Regional One's lease inventories, parts and components. Regional One's performance has been consistently strong since being acquired. The nature of the Regional One's business is such that performance in any individual quarters may vary depending on the mix of transactions, most notably the sales of operating aircraft in any given quarter.

The Corporation's ongoing initiative to identify and benefit from potential operational synergies amongst Provincial, Regional One and the Legacy Airlines will continue to grow as additional maintenance, administrative and procurement opportunities are realized.

Maintenance capital expenditures are subject to quarterly variability as a result of the uneven timing of maintenance capital expenditures and therefore needs to be evaluated over a longer period of time. Using a twelve month average smooths the anomalies that occur quarter to quarter.

The Canadian dollar exchange rate against the US dollar has stabilized as the year progressed. The stabilization of the Canadian dollar within a relatively small trading range has diminished the exchange rate impact on the Aerospace & Aviation segment's parts, maintenance and flight training costs that are primarily incurred in US dollars. Should exchange rate volatility re-emerge over the remainder of 2016 or into 2017, Regional One and Provincial Aerospace's US dollar denominated contracts serve as natural hedges for the segment's exposure to fluctuations in foreign currency. Regional One also creates a proxy for vertical integration into this major expense category.

Manufacturing Segment

The Manufacturing segment includes the operations of WesTower, Stainless, the Alberta Operations, Overlanders and Ben Machine, which was acquired in mid-2015. Each of these companies operates autonomously from one another in distinct, unrelated product or service market verticals; this attribute creates meaningful diversification within the segment and within the Corporation as a whole.

WesTower remains the dominant national provider of communication infrastructure construction and support services in Canada and has a competitive advantage over its regional competitors. WesTower has used its national presence to respond to regional variations in demand, which from time to time have been significant, and to increase its market share when localized market conditions are favourable. As technology requirements change in the Canadian telecommunications industry, WesTower continues to adapt its services and skills to the changing technical requirements of its customers. The timing of the next technology deployment in Canada is not known by the Corporation at this time; however WesTower continues to work closely with its customers to ensure it is well positioned when that increased demand arrives.

The marketplace for Stainless continues to have available capacity that has created increased pricing pressure along with delivery pressures. Despite a recent uptick in quoting activity over the last two quarters, many of Stainless' customers have yet to execute on purchasing activities related to new large capital projects. The focus continues to be utilizing innovative manufacturing processes to increase capacity within the shop. As the third quarter progressed, however, the demand for Stainless' products has increased, with the outlook for their order book at quarter end stronger than it has been all year.

Low energy prices continue to have a significant negative impact on the economy in the regions serviced by our Alberta Operations. These economic conditions have resulted in significantly lower demand for the products and services offered by the Alberta Operations. Although these challenges remain, further significant deterioration in market demand appears unlikely as energy prices have stabilized and partially recovered. The Corporation remains committed to this market and anticipates that, as it has experienced in past periods of weak demand, the Alberta Operations will emerge in an improved competitive position once the local market conditions eventually recover as competitors may not have the financial resources to sustain their operations as the Alberta Operations have as part of the Corporation.

Ben Machine's products and services to the aerospace and defense markets are uncorrelated to the demand for the products and services of the other companies in this segment and are unaffected by the conditions which have an impact on the rest of the companies in this segment. The demand for Ben Machine's products remains steady.

Overlanders anticipates that demand will further strengthen in the fourth quarter and 2017. Overlanders continues to focus on maintaining quality, strengthening key customer relationships and adding new customers into its production plans.

13. NON-IFRS FINANCIAL MEASURES

EBITDA, Adjusted Net Earnings, Free Cash Flow and Maintenance and Growth Capital Expenditures are not recognized measures under IFRS and are, therefore, defined below.

EBITDA: is defined as earnings before interest, income taxes, depreciation, amortization, other non-cash items such as gains or losses recognized on the fair value of contingent consideration items, asset impairment and restructuring costs, and any unusual non-operating one-time items such as acquisition costs. It is used by management to assess its consolidated results and the results of its operating segments. EBITDA is a performance measure utilized by many investors to analyze the cash available for distribution from operations before allowance for debt service, capital expenditures and income taxes.

Adjusted Net Earnings: is defined as net earnings adjusted for acquisition costs expensed, impairment and restructuring charges (including accelerated depreciation charges), gains or losses recognized on the fair value of contingent consideration items, amortization of intangible assets that are purchased at the time of acquisition, one-time non-cash accelerated accretion charges as a result of convertible debenture redemptions, and the non-cash charge to deferred income taxes incurred as a result of the Corporation's settlement with the CRA on certain tax loss carryforwards associated with the conversion of the Corporation from an income trust to a corporation.

Adjusted net earnings			2016
	Q3	Q2	Q1
Net earnings	$ 20,581	$ 17,214	$ 9,873
Adjusting items, net of tax			
Acquisition costs	482	293	49
Intangible asset amortization	2,064	2,054	2,086
Interest accretion on matured debentures	-	827	-
Adjusted net earnings	$ 23,127	$ 20,388	$ 12,008
			2015
	Q3	Q2	Q1
Net earnings	$ 15,983	$ 13,394	$ 934
Adjusting items, net of tax			
Acquisition costs	757	994	2,194
Intangible asset amortization	2,071	2,128	523
Interest accretion on matured debentures	-	-	648
Adjusted net earnings	$ 18,811	$ 16,516	$ 4,299

Free Cash Flow: for the period is equal to cash flow from operating activities as defined by IFRS, adjusted for changes in non-cash working capital and any unusual non-operating one-time items. Free Cash Flow is a performance measure used by management and investors to analyze the cash generated from operations before the seasonal impact of changes in working capital items or other unusual items.

Maintenance and Growth Capital Expenditures: are the capital expenditures made by the Corporation to maintain the operations of the Corporation at its current level and includes the principal payments made by the Corporation on its finance leases. Other capital expenditures are classified as growth capital expenditures and are not considered by management in determining the cash flows required to sustain the current operations of the Corporation.

The Corporation's maintenance capital expenditures include aircraft engine overhauls and airframe heavy checks that are recognized when these events occur and can be significant. Each aircraft type has different requirements for its major components according to manufacturer standards and the timing of the event can be dependent on the extent that the aircraft is utilized. As a result the extent and timing of these maintenance capital expenditure events can vary significantly from period to period, both within the year and when analyzing to the comparative period in the prior year.

Investors are cautioned that EBITDA, Adjusted Net Earnings, Free Cash Flow and Maintenance Capital Expenditures should not be viewed as an alternative to measures that are recognized under IFRS such as net earnings or cash from operating activities. The Corporation's method of calculating EBITDA, Adjusted Net Earnings, Free Cash Flow and Maintenance Capital Expenditures may differ from that of other entities and therefore may not be comparable to measures utilized by them.

ADDITIONAL INFORMATION

Additional information relating to the Corporation is on SEDAR at www.sedar.com.

Exchange Income Corporation

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(unaudited, in thousands of Canadian dollars)

As at	September 30 2016	December 31 2015
ASSETS		
CURRENT		
Cash and cash equivalents	$ 15,975	$ 15,497
Accounts receivable	147,047	125,434
Costs incurred plus recognized profits in excess of billings	9,886	7,776
Inventory	114,493	118,645
Prepaid expenses and deposits	31,149	38,907
Income taxes receivable	-	10,955
	318,550	317,214
OTHER ASSETS	10,157	10,100
CAPITAL ASSETS	644,061	542,629
INTANGIBLE ASSETS	104,231	112,813
DEFERRED INCOME TAX ASSETS	229	226
GOODWILL	260,647	246,074
	$ 1,337,875	$ 1,229,056
LIABILITIES		
CURRENT		
Accounts payable and accrued expenses	$ 112,286	$ 108,333
Income taxes payable	4,542	-
Deferred revenue	42,266	51,716
Billings in excess of costs incurred plus recognized profits	7,615	20,824
Current portion of long-term debt and finance leases (Note 7)	1,058	1,031
	167,767	181,904
LONG-TERM DEBT AND FINANCE LEASES (Note 7)	385,724	303,855
OTHER LONG-TERM LIABILITIES	18,039	16,779
CONVERTIBLE DEBENTURES (Note 8)	212,713	203,919
DEFERRED INCOME TAX LIABILITY	80,632	75,981
	864,875	782,438
EQUITY		
SHARE CAPITAL (Note 9)	456,518	425,561
CONVERTIBLE DEBENTURES - Equity Component (Note 8)	11,326	11,200
CONTRIBUTED SURPLUS	3,478	1,788
DEFERRED SHARE PLAN (Note 13)	6,675	5,123
RETAINED EARNINGS		
Cumulative Earnings	233,764	186,491
Cumulative Dividends (Note 10)	(275,763)	(234,300)
	(41,999)	(47,809)
ACCUMULATED OTHER COMPREHENSIVE INCOME	37,002	50,755
	473,000	446,618
	$ 1,337,875	$ 1,229,056

The accompanying notes are an integral part of the interim condensed consolidated financial statements.

Approved on behalf of the directors by:

Duncan Jessiman, Director
Signed

Donald Streuber, Director
Signed

Exchange Income Corporation

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(unaudited, in thousands of Canadian dollars, except for per share amounts)

For the periods ended September 30	Three Months Ended 2016	Three Months Ended 2015	Nine Months Ended 2016	Nine Months Ended 2015
REVENUE				
Aerospace & Aviation	$ 178,764	$ 157,308	$ 529,382	$ 440,603
Manufacturing	45,856	55,442	139,987	142,296
	224,620	212,750	669,369	582,899
EXPENSES				
Aerospace & Aviation expenses - excluding depreciation and amortization	99,318	90,917	310,857	261,577
Manufacturing expenses - excluding depreciation and amortization	33,805	41,273	105,073	109,204
General and administrative	31,485	26,508	92,168	78,933
	164,608	158,698	508,098	449,714
OPERATING PROFIT BEFORE DEPRECIATION, AMORTIZATION, FINANCE COSTS AND OTHER (Note 4)	60,012	54,052	161,271	133,185
Depreciation and amortization	23,650	22,753	68,824	61,883
Finance costs - interest	7,132	7,426	22,489	22,943
Acquisition costs	500	1,168	872	4,356
EARNINGS BEFORE INCOME TAXES	28,730	22,705	69,086	44,003
INCOME TAX EXPENSE (RECOVERY)				
Current	8,245	6,101	21,230	11,630
Deferred	(96)	621	188	2,062
	8,149	6,722	21,418	13,692
NET EARNINGS	$ 20,581	$ 15,983	$ 47,668	$ 30,311
EARNINGS PER SHARE (Note 12)				
Basic	$ 0.72	$ 0.64	$ 1.70	$ 1.28
Diluted	$ 0.67	$ 0.60	$ 1.64	$ 1.25

The accompanying notes are an integral part of the interim condensed consolidated financial statements.

Exchange Income Corporation

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited, in thousands of Canadian dollars)

Attributable to common shareholders For the periods ended September 30	Three Months Ended 2016	Three Months Ended 2015	Nine Months Ended 2016	Nine Months Ended 2015
NET EARNINGS	$ 20,581	$ 15,983	$ 47,668	$ 30,311
OTHER COMPREHENSIVE INCOME,				
Items that are or may be reclassified to the Statement of Income				
Cumulative translation adjustment, net of tax	2,839	16,712	(16,326)	32,028
Net gain (loss) on hedge of net investment in foreign operation	(589)	(3,524)	2,573	(4,984)
	2,250	13,188	(13,753)	27,044
COMPREHENSIVE INCOME FOR THE PERIOD	$ 22,831	$ 29,171	$ 33,915	$ 57,355

The accompanying notes are an integral part of the interim condensed consolidated financial statements.

Exchange Income Corporation

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(unaudited, in thousands of Canadian dollars)

					Retained Earnings			
	Share Capital	Convertible Debentures - Equity Component	Contributed Surplus - Matured Debentures	Deferred Share Plan	Cumulative Earnings	Cumulative Dividends	Accumulated Other Comprehensive Income (Loss)	**Total**
Balance, January 1, 2015	$ 308,919	$ 13,877	$ 124	$ 3,802	$ 146,257	$ (189,073)	$ 15,687	$ **299,593**
Shares issued to acquisition vendors	18,802	-	-	-	-	-	-	**18,802**
Convertible debentures								
Converted into shares	20,348	(1,047)	-	-	-	-	-	**19,301**
Matured	-	(1,630)	1,662	-	-	-	-	**32**
Shares issued under dividend reinvestment plan	2,866	-	-	-	-	-	-	**2,866**
partnership agreements	98	-	-	-	-	-	-	**98**
Deferred share plan vesting	-	-	-	1,366	-	-	-	**1,366**
Deferred share plan issuance	482	-	-	(482)	-	-	-	**-**
Prospectus offering, September 2015	71,336	-	-	-	-	-	-	**71,336**
Comprehensive income	-	-	-	-	30,311	-	27,044	**57,355**
Dividends declared	-	-	-	-	-	(31,975)	-	**(31,975)**
Balance, September 30, 2015	**$ 422,851**	**$ 11,200**	**$ 1,786**	**$ 4,686**	**$ 176,568**	**$ (221,048)**	**$ 42,731**	**$ 438,774**
Balance, January 1, 2016	$ 425,561	$ 11,200	$ 1,788	$ 5,123	$ 186,491	$ (234,300)	$ 50,755	$ **446,618**
Convertible debentures (Note 8)								
Converted into shares	27,899	(1,446)	-	-	-	-	-	**26,453**
Issued	-	3,262	-	-	-	-	-	**3,262**
Matured/Redeemed	-	(1,690)	1,690	-	-	-	-	**-**
Shares issued under dividend reinvestment plan (Note 9)	3,887	-	-	-	-	-	-	**3,887**
Deferred share plan vesting	-	-	-	1,612	-	-	-	**1,612**
Deferred share plan issuance	60	-	-	(60)	-	-	-	**-**
Shares cancelled under NCIB (Note 9)	(889)	-	-	-	(395)	-	-	**(1,284)**
Comprehensive income	-	-	-	-	47,668	-	(13,753)	**33,915**
Dividends declared (Note 10)	-	-	-	-	-	(41,463)	-	**(41,463)**
Balance, September 30, 2016	**$ 456,518**	**$ 11,326**	**$ 3,478**	**$ 6,675**	**$ 233,764**	**$ (275,763)**	**$ 37,002**	**$ 473,000**

The accompanying notes are an integral part of the interim condensed consolidated financial statements.

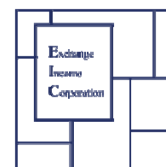
Exchange Income Corporation

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited, in thousands of Canadian dollars)

	Three Months Ended		Nine Months Ended	
For the periods ended September 30	**2016**	2015	**2016**	2015
OPERATING ACTIVITIES				
Net earnings for the period	$ **20,581**	$ 15,983	$ **47,668**	$ 30,311
Items not affecting cash:				
Depreciation and amortization	**23,650**	22,753	**68,824**	61,883
Accretion of interest	**1,035**	1,409	**4,427**	4,671
Long-term debt discount (paid) accretion	**19**	55	**208**	(86)
Gain on sale of disposal of capital assets	**(387)**	(232)	**(353)**	(816)
Deferred income tax	**(96)**	621	**188**	2,062
Deferred share program share-based vesting	**571**	438	**1,612**	1,366
	45,373	41,027	**122,574**	99,391
Changes in non-cash operating working capital items (Note 15)	**(10,028)**	2,867	**(25,182)**	(31,417)
	35,345	43,894	**97,392**	67,974
FINANCING ACTIVITIES				
Proceeds from (repayment of) long-term debt & finance leases, net of issuance costs	**58,360**	(20,765)	**82,010**	300,351
Proceeds from issuance of debentures, net of issuance costs	**-**	-	**65,623**	-
Redemption of convertible debentures (Note 8)	**-**	(2,164)	**(30,357)**	(37,108)
Issuance of shares, net of issuance costs (Note 9)	**1,342**	72,352	**3,887**	74,300
Payment for repurchase of Shares under NCIB	**-**	-	**(1,284)**	-
Cash dividends (Note 10)	**(14,366)**	(11,873)	**(41,463)**	(31,975)
	45,336	37,550	**78,416**	305,568
INVESTING ACTIVITIES				
Purchase of capital assets, net of disposals	**(71,782)**	(35,390)	**(167,589)**	(109,566)
Purchase of intangible assets	**(595)**	(346)	**(1,071)**	(771)
Cash outflow for acquisitions, net of cash acquired	**(8,158)**	(43,996)	**(8,158)**	(245,760)
Investment in other assets	**(512)**	(376)	**(266)**	(251)
Finance lease receivable payments, net of reserves	**828**	878	**1,754**	3,298
	(80,219)	(79,230)	**(175,330)**	(353,050)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**462**	2,214	**478**	20,492
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	**15,513**	33,246	**15,497**	14,968
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ **15,975**	$ 35,460	$ **15,975**	$ 35,460
Supplementary cash flow information				
Interest paid	$ **7,942**	$ 7,508	$ **17,944**	$ 20,902
Income taxes paid	$ **2,499**	$ 7,128	$ **5,144**	$ 24,023

The accompanying notes are an integral part of the interim condensed consolidated financial statements.



(unaudited, in thousands of Canadian dollars unless otherwise noted, except per share information and share data)

1. ORGANIZATION

Exchange Income Corporation ("EIC" or the "Corporation") is a diversified, acquisition-oriented corporation focused on opportunities in aerospace & aviation services and equipment, and manufacturing. In particular, the Corporation is focused on businesses that are suited for public markets, except, in certain circumstances, for their size. The business plan of the Corporation is to invest in profitable, well-established companies with strong cash flows operating in niche markets. The Corporation is incorporated in Canada and the address of the registered office is 1067 Sherwin Road, Winnipeg, Manitoba, Canada R3H 0T8.

As at September 30, 2016, the principal wholly-owned operating subsidiaries of the Corporation are Perimeter Aviation LP ("Perimeter"), Keewatin Air LP ("Keewatin"), Calm Air International LP ("Calm Air"), Bearskin Lake Air Service LP ("Bearskin"), Custom Helicopters Ltd. ("Custom Helicopters"), 4873999 Manitoba Ltd., 7328010 Canada Ltd., Overlanders Manufacturing LP ("Overlanders"), Water Blast Manufacturing LP ("Water Blast"), WesTower Communications Ltd. ("WesTower CDA"), EIC Ireland Leasing Ltd. ("EIC Ireland"), R1 Canada LP ("Regional One Canada"), EIC Luxembourg Sarl ("EIC Luxembourg"), EIC Ireland Leasing No. Two Limited ("EIC Ireland Two"), Provincial Aerospace Ltd. ("Provincial"), Ben Machine Products Company Inc. ("Ben Machine"), R1 GP Inc. ("R1 GP"), Central Point Procurement Inc. ("CPPI"), and EIIF Management USA Inc. ("EIIF USA"). Stainless Fabrication, Inc. ("Stainless"), Dallas Sailer Enterprises, Inc. ("Water Blast Dakota"), and Regional One, Inc. ("Regional One") are wholly owned subsidiaries of EIIF USA. Through the Corporation's subsidiaries, products and services are provided in two business segments: Aerospace & Aviation and Manufacturing.

During the year, the Corporation has changed the name of one of its operating segments. The segment previously referred to as the Aviation segment has been renamed the Aerospace & Aviation segment to better reflect the product mix offered by the subsidiaries within the segment.

2. BASIS OF PREPARATION

The Corporation prepares its interim condensed consolidated financial statements in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") – Part I as set out in the CPA Canada Handbook – Accounting ("CPA Handbook"). Part I of the CPA Handbook incorporates International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to interim financial statements, including IAS 34, Interim Financial Reporting. These interim condensed consolidated financial statements are presented in thousands of Canadian dollars, except per share information and share data.

In accordance with IFRS, these financial statements do not include all of the financial statement disclosures required for annual financial statements and should be read in conjunction with the Corporation's annual consolidated financial statements for the year ended December 31, 2015. In management's opinion, the financial statements reflect all adjustments that are necessary for a fair presentation of the results for the interim period presented.

These interim condensed consolidated financial statements were approved by the Board of Directors of the Corporation for issue on November 9, 2016.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies and methods of computation used in the preparation of these interim condensed consolidated financial statements are the same as those followed in the most recent annual financial statements, except for the changes noted below:

a) *Changes in Accounting Policies*

Adoption of IFRS 9 – Financial Instruments

The Corporation has early adopted IFRS 9 – Financial Instruments, with a date of initial application of January 1, 2016. IFRS 9 introduces a principles-based approach to the classification and measurement of financial assets based on an entity's business

model and the nature of a financial asset's cash flows. All financial assets, including hybrid contracts, are measured at fair value through profit or loss ("FVTPL"), fair value through other comprehensive income or amortized cost. IFRS 9 introduces an expected loss impairment model for all financial assets not carried at FVTPL. IFRS 9 also introduces a new hedge accounting model that aligns the accounting for hedge relationships more closely with an entity's risk management activities.

All financial assets previously classified as Loans and Receivables are now classified at amortized cost. There were no changes to the measurement category for financial liabilities at amortized cost.

At the date of adoption, the application of IFRS 9 had no impact on the Corporation's consolidated financial statements.

Recognition

Financial assets and liabilities are recorded on the statement of financial position of the Corporation when the Corporation becomes a party to the financial instrument.

Classification

Effective the date of adoption, the Corporation classifies its financial assets and liabilities into the following measurement categories:

- those measured subsequently at fair value, either through profit or loss or through OCI
- those measured at amortized cost

The classification of the financial asset or liability is dependent on the business model and the nature of the cash flows associated with the financial asset or liability. The Corporation will only change the classification of financial assets when the model for managing those financial assets has changed. The classification of financial liabilities cannot be changed from the classification election chosen at the time of recognition.

The Corporation's cash and cash equivalents are classified as financial assets measured at FVTPL. Accounts receivable and deposits are classified as financial assets measured at amortized cost. Accounts payable, the Corporation's credit facility, and convertible debentures are classified as financial liabilities. All financial assets and liabilities measured at amortized cost use the effective interest rate method with interest expense recorded in the statement of operations, as applicable.

Measurement

IFRS requires that an entity measure a financial asset or liability at its fair value plus or minus, in the case of a financial asset or liability not measured at FVTPL, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability. After initial recognition, the entity shall measure a financial asset at one of amortized cost, fair value through OCI, or fair value through profit or loss. Measurement of financial liabilities is chosen at the time of initial recognition and unless specifically identified as FVTPL at the time of adoption, are subsequently measured at amortized cost. The requirements of IFRS 9 in relation to classification and measurement of financial liabilities are consistent with the requirements previously included under IAS 39, except that changes in fair value due to credit risk for liabilities designated as FVTPL under IFRS 9 are recorded in other comprehensive income.

Impairment

IFRS substitutes the incurred loss model under IAS 39 with the expected losses model. Expected credit losses are to be recognized at all times in a forward looking approach that reflects changes in credit risk of the financial instruments.

Hedge Accounting and Derivatives

On the date a derivative is entered into, the instrument is recognized at fair value and re-measured at the end of each reporting period. The accounting for a derivative contract depends on whether the derivative is designated as a hedging instrument. If it is designated as a hedging instrument, the accounting treatment is dependent on the nature of the hedged item and the hedging relationship. At the date of adoption and throughout the period, the Corporation was not party to any derivatives and therefore there was no impact to the financial statements of the Corporation.

The Corporation's hedging policy, which has not changed as a result of the adoption of IFRS 9, is included in Note 3 (g) of the Corporation's annual financial statements for the year ended December 31, 2015.

b) *Accounting Standards Issued but not yet Effective*

IFRS 15 – Revenue

In May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers, a new standard that specifies the steps and timing for entities to recognize revenue as well as requiring them to provide more informative, relevant disclosures. IFRS 15 supersedes IAS 11, Customer Contracts, and IAS 18, Revenue, as well as various IFRIC and SIC interpretations regarding revenue. Adoption of IFRS 15 will be effective for the Corporation beginning on January 1, 2018, with earlier adoption permitted. The Corporation is assessing the impact of adopting this standard on its financial statements.

IFRS 16 – Leases

IFRS 16 replaces IAS 17 Leases and related interpretations. The core principle is that a lessee recognize assets and liabilities for all leases with a lease term of more than 12 months. A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments (including inflation-linked payments), and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. The new standard is intended to provide a faithful representation of leasing transactions, in particular those that do not currently require the lessees to recognize an asset and liability arising from an operating lease. IFRS 16 is effective for annual periods beginning on January 1, 2019, with early adoption permitted for entities that would also apply IFRS 15 Revenue from Contracts with Customers. The Corporation is assessing the impact of adopting this standard on its financial statements.

4. OPERATING PROFIT BEFORE DEPRECIATION, AMORTIZATION, FINANCE COSTS AND OTHER

The Corporation presents, as an additional IFRS measure, operating profit before depreciation, amortization, finance costs and other in the consolidated statement of income to assist users in assessing financial performance. The Corporation's management and the Board use this measure to evaluate consolidated operating results and assess the ability of the Corporation to incur and service debt. In addition, this measure is used to make operating decisions as it is an indicator of how much cash is being generated by the Corporation and assists in determining the need for additional cost reductions, evaluation of personnel and resource allocation decisions. Operating profit before depreciation, amortization, finance costs and other is referred to as an additional IFRS measure and may not be comparable to similar measures presented by other companies.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements requires management to use judgment in applying its accounting policies and estimates and assumptions about the future. Estimates and other judgments are continuously evaluated and are based on management's experience and other factors, including expectations about future events that are believed to be reasonable under the circumstances. There were no changes to the Corporation's critical accounting estimates and judgments from those described in the most recent annual financial statements except as noted below:

During the first quarter, the Corporation recognized an out of period adjustment in relation to the determination of goodwill associated with the acquisition of Provincial Aerospace Ltd. The Corporation incorrectly recorded a deferred tax benefit related to a provision for a non-deductible payment to the vendors. The out of period adjustment resulted in an increase to goodwill and deferred tax liabilities of $3,138 and had no impact on net income.

6. ACQUISITIONS

Acquisition of CarteNav

On August 8, 2016, the Corporation acquired all of the issued and outstanding shares of CarteNav Solutions Inc. (CarteNav). CarteNav, headquartered in Halifax, Nova Scotia, is a software developer providing intelligence, surveillance, reconnaissance ("ISR") and situational awareness software solutions for the maritime, land, and air environments to defense, security and commercial clients. CarteNav is strategically complementary to Provincial's aerospace business and, as of the close of the transaction, is a wholly-owned subsidiary of Provincial.

Consideration given:		
Cash	$	12,500
Working capital adjustment		(1,166)
Contingent consideration - earn out		2,167
Total purchase consideration	$	13,501

Total purchase consideration, including the fair value of an earn out, was $13,501. Purchase consideration includes $11,334 of cash paid on closing and the fair value of the earn out of $2,167 that is payable to the vendors. The acquisition balance sheet includes the fair value of the earn out liability of $910 to CarteNav's previous option holders whose equity interest was terminated prior to the close of the acquisition. The maximum earn out is $900 per annum for five years and is only paid out to the vendors and previous option holders if certain EBITDA thresholds are exceeded. The aggregate goodwill recognized for CarteNav was $14,746 and is based on preliminary estimates of the purchase price allocation. The final purchase price allocation, which is expected to be completed in the fourth quarter of 2016, will be based on final analysis of the fair values of assets and liabilities acquired, including intangible assets. The Corporation does not expect that differences between preliminary and final purchase price allocations will have a material impact on its results of operations or financial position.

7. LONG-TERM DEBT AND FINANCE LEASES

The following summarizes the Corporation's long-term debt and finance leases as at September 30, 2016 and December 31, 2015:

	September 30 2016	December 31 2015
Revolving term facility:		
Canadian dollar amounts drawn	$ 262,785	$ 248,000
United States dollar amounts drawn (US$93,940 and US$41,040, respectively)	123,221	56,799
Total credit facility debt outstanding, principal value	386,006	304,799
less: unamortized transaction costs	(1,260)	(1,789)
less: unamortized discount on outstanding Banker's Acceptances	(374)	(355)
Net credit facility debt	384,372	302,655
Finance leases	2,410	2,231
Total net credit facility debt and finance leases	386,782	304,886
less: current portion of finance leases	(1,058)	(1,031)
Long-term debt and finance leases	$ 385,724	$ 303,855

The Corporation's credit facility is secured by a general security agreement over the assets of the Corporation, subject to customary terms, conditions, covenants and other provisions, and includes both financial and negative covenants. The Corporation is in compliance with all financial and negative covenants as at September 30, 2016.

Interest expense recorded by the Corporation during the three and nine months ended September 30, 2016 for the long-term debt and finance leases was $3,203 and $9,122, respectively (2015 – $3,244 and $8,311, respectively).

Credit Facility

The following is the continuity of long-term debt for the nine months ended September 30, 2016:

	Nine Months Ended September 30, 2016				
	Opening	Withdrawals	Repayments	Exchange Differences	Ending
Credit facility amounts drawn					
Canadian dollar portion	$ 248,000	$ 112,785	$ (98,000)	$ -	$ 262,785
United States dollar portion	56,799	103,526	(34,494)	(2,610)	123,221
	$ 304,799				$ 386,006

8. CONVERTIBLE DEBENTURES

Series - Year of Issuance	Trade Symbol	Maturity	Interest Rate	Conversion Price
Unsecured Debentures - 2012	EIF.DB.E	September 30, 2019	5.5%	$ 36.80
Unsecured Debentures - 2013	EIF.DB.F	March 31, 2020	5.35%	$ 41.60
Unsecured Debentures - 2014	EIF.DB.G	March 31, 2021	6.0%	$ 31.70
Unsecured Debentures - 2016	EIF.DB.H	June 30, 2023	5.25%	$ 44.75

Summary of the debt component of the convertible debentures:

	2016 Balance, Beginning of Period	Debentures Issued	Accretion Charges	Debentures Converted	Redeemed / Matured	2016 Balance, End of Period
Series J	$ 55,595	$ -	$ 1,153	$ (26,391)	$ (30,357)	$ -
Unsecured - 2012	54,700	-	502	-	-	55,202
Unsecured - 2013	62,034	-	464	-	-	62,498
Unsecured - 2014	37,822	-	261	-	-	38,083
Unsecured - 2016	-	64,211	138	-	-	64,349
						220,132
less: unamortized transaction costs						(7,419)
Convertible Debentures - Debt Component, end of period						$ 212,713

During the nine months ended September 30, 2016, convertible debentures totaling a face value of $27,120 were converted by the holders at various times into 886,264 Shares of the Corporation (2015 – $19,829 face value into 991,450 Shares).

Interest expense recorded during the three and nine months ended September 30, 2016 for the convertible debentures was $3,929 and $13,367, respectively (2015 – $4,182 and $14,632, respectively).

On June 30, 2016, the Corporation exercised its right to call the Series J convertible debentures. Before the redemption date, $27,120 of convertible debentures were converted into 886,264 common shares at a price of $30.60 per share of the Corporation. The remaining convertible debentures in the principal amount of $30,357 were repaid on June 30, 2016 using funds from the Corporation's credit facility.

June 2016 Unsecured Convertible Debenture Offering

The Corporation issued the $69.0 million Seven Year 5.25% Convertible Unsecured Subordinated Debentures on June 7, 2016. These debentures bear interest at the rate of 5.25% per annum payable semi-annually in arrears, in cash, on June 30 and December 31 of each year. The maturity date of the debentures is June 30, 2023. Each debenture is convertible, at the debentureholder's option, into Shares of the Corporation at any time prior to the close of business on the day prior to the maturity date at a conversion price of $44.75.

At the Corporation's option, on the maturity date, the debentures (or any portion thereof) shall be convertible into Shares at the Corporation's forced conversion price equal to 95% of the weighted average trading price of the Shares for the 20 trading days ending five days prior to the maturity date. The debentures will not be redeemable on or before June 30, 2019. After June 30, 2019, but prior to June 30, 2021, the Corporation has the option to redeem these debentures provided that certain thresholds are met surrounding the weighted average market price of the Shares at that time. On and after June 30, 2021 but prior to the maturity date the Corporation has the option to redeem these debentures without any weighted average market price thresholds. If the Corporation elects to redeem the debentures, the debentureholders have the option to convert the debentures into Shares of the Corporation at the conversion price.

Transaction costs of $3,377 were incurred in relation to the issuance of these debentures.

Convertible Debentures Equity Component

Since all of the outstanding convertible debentures contain a conversion feature available to the debenture-holder to convert debenture principal into Shares of the Corporation, the debenture obligation is classified partly as debt and partly as shareholders' equity. The debt component represents the present value of interest and principal payments over the life of the convertible debentures discounted at a rate approximating the rate which would have been applicable to non-convertible debentures at the time the convertible debentures were issued. The difference between the principal amount of the convertible debentures and the present value of interest and principal payments over the life of the convertible debentures is accreted over the term of the convertible debentures through periodic charges to the debt component, such that, on maturity, the debt component equals the principal amount of the convertible debentures outstanding.

Summary of the equity component of the convertible debentures:

	September 30 2016	December 31 2015
Series J - 2011	$ -	$ 3,136
Unsecured Debentures - 2012	3,204	3,204
Unsecured Debentures - 2013	3,063	3,063
Unsecured Debentures - 2014	1,797	1,797
Unsecured Debentures - 2016	3,262	-
Convertible Debentures - Equity Component, end of period	$ 11,326	$ 11,200

All convertible debentures outstanding at September 30, 2016 represent direct unsecured debt obligations of the Corporation.

9. SHARE CAPITAL

Changes in the Shares issued and outstanding during the nine months ended September 30, 2016 are as follows:

	Number of Shares	2016 Amount
Share capital, beginning of period	27,633,217	$ 425,561
Issued upon conversion of convertible debentures	886,264	27,899
Issued under dividend reinvestment plan	137,979	3,887
Shares cancelled under NCIB	(57,710)	(889)
Issued under deferred share plan	4,045	60
Share capital, end of period	28,603,795	$ 456,518

During the second quarter, the Corporation issued a total of 886,264 Shares upon conversion of Series J Secured Convertible Debentures prior to redemption (Note 8).

During the first quarter, the Corporation purchased a total of 57,710 Shares through several days of trading. As of the date of this report, there are 1,323,949 Shares available for purchase under the NCIB ending January 4, 2017. The Corporation purchased the Shares at an average cost of $22.25 per Share for aggregate consideration of $1,284. The excess of the cost over the average book value of $395 was charged to retained earnings.

10. DIVIDENDS DECLARED

The Corporation pays cash dividends on or about the 15th of each month to shareholders of record on the last business day of the previous month. The Corporation's Board of Directors regularly examines the dividends paid to shareholders.

Cumulative dividends during the nine months ended September 30, 2016 and the comparative 2015 period are as follows:

Nine Months Ended September 30	2016	2015
Cumulative dividends, beginning of period	$ 234,300	$ 189,073
Dividends during the period	41,463	31,975
Cumulative dividends, end of period	$ 275,763	$ 221,048

The amounts and record dates of the dividends during the nine months ended September 30, 2016 and the comparative 2015 period are as follows:

			2016 Dividends			2015 Dividends
Month	Record date	Per Share	Amount	Record date	Per Share	Amount
January	January 29, 2016	$ 0.16	$ 4,424	January 30, 2015	$ 0.145	$ 3,342
February	February 29, 2016	0.16	4,416	February 27, 2015	0.145	3,347
March	March 31, 2016	0.16	4,418	March 31, 2015	0.145	3,349
April	April 29, 2016	0.16	4,423	April 30, 2015	0.145	3,352
May	May 31, 2016	0.1675	4,633	May 29, 2015	0.145	3,354
June	June 30, 2016	0.1675	4,783	June 30, 2015	0.145	3,358
July	July 29, 2016	0.1675	4,786	July 31, 2015	0.145	3,550
August	August 31, 2016	0.1675	4,789	August 31, 2015	0.16	3,919
September	September 30, 2016	0.1675	4,791	September 30, 2015	0.16	4,404
Total		$ 1.4775	$ 41,463		$ 1.335	$ 31,975

Subsequent to September 30, 2016 and before these interim condensed consolidated financial statements were authorized, the Corporation declared a monthly dividend of $0.1675 per Share for October 2016.

11. SEGMENTED AND SUPPLEMENTAL INFORMATION

Operating segments are reported in a manner that is consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer.

During the year, the Corporation has changed the name of one of its operating segments. The segment previously referred to as the Aviation segment has been renamed the Aerospace & Aviation segment to better reflect the product mix offered by the subsidiaries within the segment.

The Corporation's operating business segments include strategic business units that offer different products and services. The Corporation has two operating business segments: Aerospace & Aviation and Manufacturing. The Aerospace & Aviation segment provides airline services to communities in Manitoba, Ontario, Nunavut and eastern Canada and also provides aircraft and engine aftermarket parts to regional airline operators around the world. In addition, Provincial's aerospace business designs, modifies, maintains and operates custom sensor equipped aircraft. The Manufacturing segment consists of niche specialty metal manufacturers in markets throughout Canada and the United States.

The Corporation evaluates each segment's performance based on EBITDA. The Corporation's method of calculating EBITDA may differ from that of other corporations and therefore may not be comparable to measures utilized by them. The Corporation's method of

calculating EBITDA is consistent with the Corporation's Operating Profit before Depreciation, Amortization, Finance Costs and Other presented in the consolidated statement of income. All inter-segment revenues are eliminated, and all segment revenues presented in the tables below are from external customers.

"Head Office" used in the following segment tables is not a separate segment and is only presented to reconcile to enterprise EBITDA, certain statement of financial position amounts and capital asset additions. It includes expenses incurred at head office of the Corporation.

	Three Months Ended September 30, 2016			
	Aerospace & Aviation	Manufacturing	Head Office	Consolidated
Revenue	$ 178,764	$ 45,856	$ -	$ 224,620
Expenses	121,206	39,436	3,966	164,608
EBITDA	57,558	6,420	(3,966)	60,012
Depreciation and amortization				23,650
Finance costs - interest				7,132
Acquisition costs				500
Earnings before tax				28,730
Current income tax expense				8,245
Deferred income tax recovery				(96)
Net earnings				$ 20,581

	Three Months Ended September 30, 2015			
	Aerospace & Aviation	Manufacturing	Head Office	Consolidated
Revenue	$ 157,308	$ 55,442	$ -	$ 212,750
Expenses	107,787	47,231	3,680	158,698
EBITDA	49,521	8,211	(3,680)	54,052
Depreciation and amortization				22,753
Finance costs - interest				7,426
Acquisition costs				1,168
Earnings before tax				22,705
Current income tax expense				6,101
Deferred income tax expense				621
Net earnings				$ 15,983

	Nine Months Ended September 30, 2016			
	Aerospace & Aviation	Manufacturing	Head Office	Consolidated
Revenue	$ 529,382	$ 139,987	$ -	$ 669,369
Expenses	373,793	122,364	11,941	508,098
EBITDA	155,589	17,623	(11,941)	161,271
Depreciation and amortization				68,824
Finance costs - interest				22,489
Acquisition costs				872
Earnings before income tax				69,086
Current income tax expense				21,230
Deferred income tax expense				188
Net earnings				$ 47,668

	Nine Months Ended September 30, 2015			
	Aerospace & Aviation	Manufacturing	Head Office	Consolidated
Revenue	$ 440,603	$ 142,296	$ -	$ 582,899
Expenses	312,659	126,222	10,833	449,714
EBITDA	127,944	16,074	(10,833)	133,185
Depreciation and amortization				61,883
Finance costs - interest				22,943
Acquisition costs				4,356
Earnings before income tax				44,003
Current income tax expense				11,630
Deferred income tax expense				2,062
Net earnings				$ 30,311

	September 30, 2016			
	Aerospace & Aviation	Manufacturing	Head Office	Consolidated
Total assets	$ 1,080,942	$ 194,411	$ 62,522	$ 1,337,875
Net capital asset additions	164,775	2,359	455	167,589

	December 31, 2015			
	Aerospace & Aviation	Manufacturing	Head Office	Consolidated
Total assets	$ 971,126	$ 195,201	$ 62,729	$ 1,229,056
Net capital asset additions	120,111	3,596	438	124,145

12. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing net earnings by the weighted average number of Shares outstanding during the period.

Diluted earnings per share is calculated by adjusting the weighted average number of common shares outstanding to assume conversion of all dilutive potential common shares. The Corporation has two categories of dilutive potential common shares: deferred shares under the Corporation's Deferred Share Plan and convertible debentures. For the convertible debentures, the convertible debt is assumed to have been converted into common shares and net earnings is adjusted to eliminate the interest expense from the convertible debt less the tax effect.

The computation for basic and diluted earnings per share for the Corporation for the three and nine months ended September 30, 2016 and comparative periods in 2015 are as follows:

	Three Months Ended		Nine Months Ended	
Periods Ended September 30	**2016**	2015	**2016**	2015
Net earnings for the period, available to common shareholders	$ **20,581**	$ 15,983	$ **47,668**	$ 30,311
Effect of dilutive securities				
Convertible debentures	**2,868**	3,054	**7,240**	738
Diluted earnings for the period	$ **23,449**	$ 19,037	$ **54,908**	$ 31,049
Basic weighted average number of Shares	**28,581,999**	24,809,466	**27,967,268**	23,671,509
Effect of dilutive securities				
Vested deferred shares	**534,598**	383,268	**534,598**	383,268
Convertible debentures	**5,928,351**	6,416,636	**5,039,226**	777,683
Diluted basis average number of Shares	**35,044,948**	31,609,370	**33,541,092**	24,832,460
Earnings per share:				
Basic	$ **0.72**	$ 0.64	$ **1.70**	$ 1.28
Diluted	$ **0.67**	$ 0.60	$ **1.64**	$ 1.25

13. DEFERRED SHARE PLAN

During the nine months ended September 30, 2016, the Corporation granted deferred shares to certain personnel. The fair value of the deferred shares granted was $3,173 (2015 - $2,173) at the time of the grant and was based on the market price of the Corporation's Shares at that time. During the three and nine months ended September 30, 2016, the Corporation recorded compensation expense of $571 and $1,612, respectively, for the Corporation's Deferred Share Plan within the general and administrative expenses of head-office (2015 - $438 and $1,366, respectively).

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Corporation's activities expose it to a variety of financial risks: market risk (primarily currency risk and interest rate risk), credit risk and liquidity risk. Senior management is responsible for setting acceptable levels of risk and reviewing risk management activities as necessary. The following describes the risk management areas that have significantly changed from those described in the audited December 31, 2015 consolidated financial statements.

Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk is comprised of currency, interest rate and other price risk.

Currency Risk

The Corporation has US $93,940 or $123,221 (December 31, 2015 - US $41,040 or $56,799) outstanding on its credit facility. The outstanding funds in USD results in currency risk that the future cash flows will fluctuate with the changes in market currency rates. The exposure for the USD portion of its credit facility outstanding is offset by the cash generated through the operations of its US based subsidiaries.

The Corporation`s investment in those subsidiaries with USD functional currencies are hedged partially by US $54,500 (December 31, 2015 - US $40,500) of credit facility draws, which mitigates the foreign currency translation risk arising from the subsidiary`s net assets. The loan is designated as a net investment hedge and no ineffectiveness was recognized from the net investment hedge during the nine months ended September 30, 2016.

Interest Rates

The Corporation is subject to the risk that future cash flows associated with the credit facility outstanding (Note 7) will fluctuate due to fluctuations in interest rates. The Corporation manages this risk and seeks financing terms in individual arrangements that are most advantageous.

The terms of the credit facility allow for the Corporation to choose the base interest rate between Prime, Bankers Acceptances or London Inter Bank Offer Rate ("LIBOR"). At September 30, 2016, US $90,800 (December 31, 2015 - US $33,000) was outstanding under US LIBOR, US $3,140 (December 31, 2015 - US $8,040) was outstanding under USD Prime, $253,300 (December 31, 2015 - $232,000) was outstanding under Bankers Acceptances and $9,485 (December 31, 2015 - $16,000) was outstanding under Prime.

The interest rates of the convertible debentures (Note 8) have fixed interest rates.

Fair Value of Financial Instruments

The following table provides fair value information about financial assets and liabilities in the consolidated balance sheet and categorized by level according to the significance of the inputs used in making the measurements and their related classifications:

		Fair Value		
Recurring fair value measurements	Carrying Value September 30, 2016	Quoted prices in an active market Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3
Financial Liabilities				
Consideration liabilities - Other financial liabilities	$ (3,288)	$ -	$ -	$ (3,288)
Fair Value Disclosures				
Other assets - Loans and receivables	3,210	-	3,210	-
Other assets - Equity method investment	6,947	-	-	6,947
Long term debt - Other financial liabilities	(384,372)	-	-	(386,006)
Convertible debt - Other financial liabilities	(212,713)	(245,051)	-	-

		Fair Value		
	Carrying Value	Quoted prices in an active market	Significant other observable inputs	Significant unobservable inputs
Recurring fair value measurements	December 31, 2015	Level 1	Level 2	Level 3
Financial Liabilities				
Consideration liabilities - Other financial liabilities	$ (484)	$ -	$ -	$ (484)
Fair Value Disclosures				
Other assets - Loans and receivables	3,335	-	3,335	-
Other assets - Equity method investment	6,765	-	-	6,765
Long term debt - Other financial liabilities	(302,655)	-	-	(304,799)
Convertible debt - Other financial liabilities	(203,919)	(212,991)	-	-

The Corporation valued the level 3 consideration liabilities based on the present value of estimated cash outflows using probability weighted calculations, discount rates and the observable fair market value of its equity, as applicable.

The following table summarizes the changes in the consideration liability originally recorded on the acquisition of Regional One and the acquisition of CarteNav, including any changes for settlements, changes in fair value and foreign currency:

Consideration Liability Summary	**September 30**	December 31
For the periods ended	**2016**	2015
Opening	**$ 484**	$ 2,162
Accretion	**13**	23
Settled during the period	**(260)**	(2,009)
Acquisition of CarteNav (Note 6)	**3,077**	-
Translation (gain)/loss	**(26)**	308
Ending	**$ 3,288**	$ 484

The remaining consideration liability outstanding at September 30, 2016 consists of certain tax related liabilities owing to the vendors. Additionally, there were 438,209 Shares of the Corporation that were originally issued into escrow at the time of acquisition and relate to the retention of the vendor as CEO. The remaining Shares are anticipated to be settled and released from escrow evenly on each of the next two anniversaries of closing the acquisition (175,283 Shares in escrow as at September 30, 2016).

Financial Instrument Fair Value Disclosures

The fair values of cash and cash equivalents, accounts receivable, other assets, accounts payable and accrued expenses which are classified as amortized cost or other financial liabilities, as applicable, approximate their carrying values due to their short term nature.

As at September 30, 2016, management had determined that the fair value of its long term debt approximates its carrying value as such debt is subject to floating interest rates and the Corporation's credit risk profile has not significantly changed in current market conditions as the debt was recently amended.

As at September 30, 2016, management estimated the fair value of the convertible debentures based on trading values. The estimated fair value of its convertible debentures is $245,051 (December 31, 2015 - $212,991) with a carrying value of $212,713 (December 31, 2015 - $203,919).

The Corporation's policy is to recognize transfers in and out of the fair value hierarchy as of the date of the event or change in circumstances that caused the transfer. There were no such transfers during the current period.

15. CHANGES IN WORKING CAPITAL ITEMS

The changes in non-cash operating working capital items during the three and nine months ended September 30, 2016 and the comparative periods in 2015 are as follows:

	Three Months Ended		Nine Months Ended	
Periods Ended September 30	**2016**	2015	**2016**	2015
Accounts receivable	**$ (3,862)**	$ (17,993)	**$ (21,048)**	$ (21,228)
Costs incurred plus recognized profits in excess of billings	**1,256**	62	**(2,110)**	(554)
Inventory	**(2,780)**	(4,199)	**4,187**	(22,565)
Prepaid expenses	**371**	(8,817)	**7,785**	(13,615)
Accounts payable and accrued charges	**(6,306)**	15,392	**(1,747)**	17,211
Income taxes receivable (payable)	**5,673**	(1,569)	**15,663**	(15,274)
Deferred revenue	**(4,651)**	5,245	**(11,282)**	8,123
Billings in excess of costs incurred plus recognized profits	**(1,517)**	7,661	**(13,209)**	4,381
Foreign currency adjustments	**1,788**	7,085	**(3,421)**	12,104
Net change in working capital items	**$ (10,028)**	$ 2,867	**$ (25,182)**	$ (31,417)

16. SUBSEQUENT EVENTS

Acquisition of Team J.A.S.

On November 4, 2016, the Corporation signed a purchase agreement to acquire the shares of Team J.A.S., Inc. ("Team J.A.S."), a US corporation based in Jacksonville, Florida. Team J.A.S. is a provider of parts, services and MRO capabilities to Twin Otter operator's throughout the world.

The total purchase price is up to US$10 million, and is subject to customary post-closing adjustments. The purchase price was paid in cash (85%) and shares of EIC (15%). Team J.A.S.'s financial results will be included in the Corporation's consolidated financial statements commencing in the fourth quarter of 2016.